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[HAMILTON—*The Farmer Refuted*, 1775, Æt. 18.]

"We are laboring hard to establish in this country principles more and more *national*, and free from all foreign ingredients, so that we may be neither 'Greeks nor Trojans,' but truly Americans."—[HAMILTON TO KING, 1796, Æt. 39.]

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CONVENTION OF NEW YORK

CONVENTION OF NEW YORK

SPEECH ON THE COMPROMISES OF THE CONSTITUTION¹

POUGHKEEPSIE, June 20, 1788.

MR. CHAIRMAN:

The honorable member who spoke yesterday went into an explanation of a variety of circumstances to prove the expediency of a change in our National Government, and the necessity of a firm Union; at the same time he described the great advantages which this State, in particular, receives from the Confederacy, and its peculiar weaknesses when abstracted from the Union. In doing this he advanced a variety of arguments which deserve serious consideration. Gentlemen have this day come forward to answer him. He has been treated as having wandered in the flowery fields of fancy, and attempts have been made to take off from the minds of the committee that sober impression which might be expected from his arguments. I trust, sir, that observations of this kind are not thrown out to cast a light air on this important subject; or to give any

¹ The reporter of this, and of the following speeches, observes: "He thinks an apology due for the imperfect dress in which these arguments are given to the public. Not long accustomed, he cannot pretend as much accuracy as might be expected from a more experienced hand."

personal bias on the great question before us. I will not agree with gentlemen who trifle with the weaknesses of our country; and suppose that they are enumerated to answer a party purpose, and to terrify with ideal dangers. No; I believe these weaknesses to be real, and pregnant with destruction. Yet, however weak our country may be, I hope we shall never sacrifice our liberties. If, therefore, on a full and candid discussion, the proposed system shall appear to have that tendency, for God's sake, let us reject it! But, let us not mistake words for things, nor accept doubtful surmises as the evidence of truth. Let us consider the Constitution calmly and dispassionately, and attend to those things only which merit consideration.

No arguments drawn from embarrassment or inconvenience ought to prevail upon us to adopt a system of government radically bad; yet it is proper that these arguments, among others, should be brought into view. In doing this yesterday it was necessary to reflect upon our situation, to dwell upon the imbecility of our Union, and to consider whether we, as a State, could stand alone.

Although I am persuaded this convention will be resolved to adopt nothing that is bad, yet I think every prudent man will consider the merits of the plan in connection with the circumstances of our country; and that a rejection of the Constitution may involve most fatal consequences. I make these remarks to show that, though we ought not to be actuated by unreasonable fear, yet we ought to be prudent.

This day, sir, one gentleman has attempted to answer the arguments advanced by my honorable friend; another has treated him as having wandered from the subject. This being the case, I trust I shall be equally indulged in reviewing the remarks which have been made.

Sir, it appears to me extraordinary, that while gentlemen in one breath acknowledge that the old Confederation requires many material amendments, they should, in the next, deny that its defects have been the cause of our political weakness, and the consequent calamities of our country. I cannot but infer from this that there is still some lurking favorite imagination that this system, with corrections, might become a safe and permanent one. It is proper that we should examine this matter. We contend that the radical vice in the old Confederation is that the laws of the Union apply only to the States in their corporate capacity. Has not every man who has been in our Legislature experienced the truth of this position? It is inseparable from the disposition of bodies who have a constitutional power of resistance, to examine the merits of a law. This has ever been the case with the federal requisitions. In this examination, not being furnished with those lights which directed the deliberations of the General Government, and incapable of embracing the general interests of the Union, the States have almost uniformly weighed the requisitions by their own local interests, and have only executed them so far as answered their particular convenience or advantage. Hence there have ever been thirteen different

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bodies to judge of the measures of Congress—and the operations of government have been distracted by their taking different courses. Those which were to be benefited have complied with the requisitions; others have totally disregarded them. Have not all of us been witnesses to the unhappy embarrassments which resulted from these proceedings? Even during the late war, while the pressure of common danger connected strongly the bond of our union, and excited to vigorous exertions, we have felt many distressing effects of the impotent system. How have we seen this State, though most exposed to the calamities of the war, complying, in an unexampled manner, with the federal requisitions, and compelled by the delinquency of others to bear most unusual burdens! Of this truth we have the most solemn evidence on our records. In 1779 and 1780, when the State, from the ravages of war, and from her great exertions to resist them, became weak, distressed, and forlorn, every man avowed the principle we now contend for: that our misfortunes, in a great degree, proceeded from the want of vigor in the Continental Government. These were our sentiments when we did not speculate, but felt. We saw our weakness, and found ourselves its victims. Let us reflect that this may again, in all probability, be our situation. This is a weak State, and its relative station is dangerous. Your capital is accessible by land, and by sea is exposed to every daring invader; and on the northwest you are open to the inroads of a powerful foreign nation. Indeed this State, from its situation,

will, in time of war, probably be the theatre of its operations.

Gentlemen have said that the non-compliance of the States has been occasioned by their sufferings. This may in part be true. But has this State been delinquent? Amidst all our distresses, *we* have fully complied. If New York could comply wholly with the requisitions, is it not to be supposed that the other States could in part comply? Certainly every State in the Union might have executed them in some degree. But New Hampshire, who has not suffered at all, is totally delinquent. North Carolina is totally delinquent. Many others have contributed in a very small proportion; and Pennsylvania and New York are the only States which have perfectly discharged their federal duty.

From the delinquency of those States which have suffered little by the war, we naturally conclude that they have made no efforts, and a knowledge of human nature will teach us that their ease and security have been a principal cause of their want of exertion. While danger is distant its impression is weak, and while it affects only our neighbors, we have few motives to provide against it. Sir, if we have national objects to pursue, we must have national revenues. If you make requisitions and they are not complied with, what is to be done? It has been well observed, that to coerce the States is one of the maddest projects that was ever devised. A failure of compliance will never be confined to a single State; this being the case, can we suppose it wise to hazard a civil war? Suppose Massachusetts or any

large State should refuse, and Congress should attempt to compel them, would they not have influence to procure assistance, especially from those States who are in the same situation as themselves? What a picture does this idea present to our view! A complying State at war with a non-complying State; Congress marching the troops of one State into the bosom of another; this State collecting auxiliaries and forming perhaps a majority against its federal head. Here is a nation at war with itself! A government that can exist only by the sword! Every such war must involve the innocent with the guilty. This single consideration should be sufficient to dispose every peaceable citizen against such a government.

But can we believe that one State will ever suffer itself to be used as an instrument of coercion? It is a dream. It is impossible. We are brought to this dilemma: Either a federal standing army is to enforce the requisitions, or the federal treasury is left without supplies, and the government without support. What is the cure for this great evil? Nothing but to enable the national laws to operate on individuals, in the same manner as those of the States do. This is the true reasoning upon the subject. Gentlemen appear to acknowledge its force, and yet, while they yield to the principle, they seem to fear its application to this government.

What shall we do? Shall we take the old Confederation as the basis of a new system? Can this be the object of gentlemen? Certainly not. Will any man who entertains a wish for the safety of his

country trust the sword and the purse with a single Assembly, organized on principles so defective? Though we might give to such a government certain powers with safety, yet to give them the full and unlimited powers of taxation and the national forces would be to establish a despotism, the definition of which is, a government in which all power is concentrated in a single body. To take the old Confederation, and fashion it upon these principles, would be establishing a power which would destroy the liberties of the people. These considerations show clearly that a government totally different must be instituted. They had weight in the convention who formed the new system. It was seen that the necessary powers were too great to be trusted to a single body; they, therefore, formed two branches, and divided the powers, that each might be a check upon the other. This was the result of their wisdom, and I presume that every reasonable man will agree to it. The more this subject is explained, the more clear and convincing it will appear to every member of this body. The fundamental principle of the old Confederation is defective. We must totally eradicate and discard this principle before we can expect an efficient government. The gentlemen who have spoken to-day have taken up the subject of the ancient confederacies; but their view of them has been extremely partial and erroneous; the fact is, the same false and impracticable principle ran through most of the ancient governments. The first of these governments that we read of was the Amphycyonic

confederacy. The council which managed the affairs of this league possessed powers of a similar complexion with those of our present Congress. The same feeble mode of legislation in the head, and the same power of resistance in the members, prevailed. When a requisition was made, it rarely met a compliance, and a civil war was the consequence. Those which were attacked called in foreign aid to protect them; and the ambitious Philip, under the mask of an ally to one, invaded the liberties of each, and finally subverted the whole.

The operation of this principle appears in the same light in the Dutch republics. They have been obliged to levy taxes by an armed force. In this confederacy, one large province, by its superior wealth and influence, is commonly a match for all the rest; and when they do not comply, the province of Holland is obliged to compel them. It is observed that the United Provinces have existed a long time; but they have been constantly the sport of their neighbors, and have been supported only by the external pressure of surrounding powers. The policy of Europe, not the policy of their government has saved them from dissolution. Besides, the powers of the Stadtholder have served to give an energy to the operations of his government, which is not to be found in ours. This prince has a vast personal influence; he has independent revenues; he commands an army of forty thousand men.

The German confederacy has also been a perpetual source of wars. They have a Diet, like our Congress, who have authority to call for supplies;

these calls are never obeyed; and, in time of war, the imperial army never takes the field till the enemy are returning from it. The Emperor's Austrian dominions, in which he is an absolute prince, alone enable him to make head against the common foe. The members of this confederacy are ever divided and opposed to each other. The King of Prussia is a member; yet he has been constantly in opposition to the Emperor. Is this a desirable government?

I might go more particularly into the discussion of examples, and show that, wherever this fatal principle has prevailed, even as far back as the Lycian and Achæan leagues, as well as the Amphyctionic confederacy, it has proved the destruction of the government. But I think observations of this kind might have been spared. Had they not been entered into by others, I should not have taken up so much of the time of the committee. No inference can be drawn from these examples that republics cannot exist; we only contend that they have hitherto been founded on false principles. We have shown how they have been conducted, and how they have been destroyed. Weakness in the head has produced resistance in the members; this has been the immediate parent of civil war; auxiliary force has been invited, and a foreign power has annihilated their liberties and their name. Thus Philip subverted the Amphyctionic, and Rome the Achæan Republic.

We shall do well, sir, not to deceive ourselves with the favorable events of the late war. Common

danger prevented the operation of the ruinous principle in its full extent. But since the peace, we have experienced the evils. We have felt the poison of the system in its unmingled purity.

Without dwelling any longer on this subject, I shall proceed to the question immediately before the committee.

In order that the committee may understand clearly the principles on which the general convention acted, I think it necessary to explain some preliminary circumstances.

Sir, the natural situation of this country seems to divide its interests into different classes. There are navigating and non-navigating States. The Northern are properly the navigating States; the Southern appear to possess neither the means nor the spirit of navigation. This difference in situation naturally produces a dissimilarity of interests and views respecting foreign commerce. It was the interest of the Northern States, that there should be no restraints on their navigation, and that they should have full power, by a majority in Congress, to make commercial regulations in favor of their own, and in restraint of the navigation of foreigners. The Southern States wished to impose a restraint on the Northern, by requiring that two thirds in Congress should be requisite to pass an act in regulation of commerce. They were apprehensive that the restraints of a navigation law would discourage foreigners; and, by obliging them to employ the shipping of the Northern States, would probably enhance their freight. This being the case, they

insisted strenuously on having this provision ingrafted in the Constitution; and the Northern States were as anxious in opposing it. On the other hand, the small States, seeing themselves embraced by the Confederation upon equal terms, wished to retain the advantages which they already possessed. The large States, on the contrary, thought it improper that Rhode Island and Delaware should enjoy an equal suffrage with themselves. From these sources a delicate and difficult contest arose. It became necessary, therefore, to compromise, or the convention must have dissolved without effecting any thing. Would it have been wise and prudent in that body, in this critical situation, to have deserted their country? No. Every man who hears me—every wise man in the United States would have condemned them. The convention were obliged to appoint a committee for accommodation. In this committee the arrangement was formed as it now stands, and their report was accepted. It was a delicate point, and it was necessary that all parties should be indulged. Gentlemen will see that if there had not been unanimity, nothing could have been done. For the convention had no power to establish, but only to recommend, a good government. Any other system would have been impracticable. Let a convention be called to-morrow. Let them meet twenty times—nay, twenty thousand times,—they will have the same difficulties to encounter—the same clashing interests to reconcile.

But, dismissing these reflections, let us consider how far the arrangement is in itself entitled to the

approbation of this body. We will examine it upon its own merits.

The first thing objected to is that clause which allows a representation for three fifths of the negroes. Much has been said of the impropriety of representing men who have no will of their own. Whether this be reasoning or declamation, I will not presume to say. It is the unfortunate situation of the Southern States to have a great part of their population as well as property in blacks. The regulation complained of was one result of the spirit of accommodation which governed the convention; and without this indulgence no UNION could possibly have been formed. But, sir, considering some peculiar advantages which we derive from them, it is entirely just that they should be gratified. The Southern States possess certain staples—tobacco, rice, indigo, etc.—which must be capital objects in treaties of commerce with foreign nations; and the advantage which they necessarily procure in these treaties will be felt throughout all the States. But the justice of this plan will appear in another view. The best writers on government have held that representation should be compounded of persons and property. This rule has been adopted, as far as it could be, in the Constitution of New York. It will, however, be by no means admitted that the slaves are considered altogether as property. They are men, though degraded to the condition of slavery. They are persons known to the municipal laws of the States which they inhabit, as well as to the laws of nature. But representation and taxation go together, and one

uniform rule ought to apply to both. Would it be just to compute these slaves in the assessment of taxes, and discard them from the estimate in the apportionment of representatives? Would it be just to impose a singular burthen without conferring some adequate advantage?

Another circumstance ought to be considered. The rule we have been speaking of is a general rule, and applies to all the States. You have a great number of people in your State which are not represented at all, and have no voice in your government. These will be included in the enumeration, not two fifths, or three fifths, but the whole. This proves that the advantages of the plan are not confined to the Southern States, but extend to other parts of the Union.

I now proceed to consider the objection with regard to the number of representatives as it now stands. I am persuaded that the system, in this respect, is on a better footing than the gentlemen imagine.

It has been asserted that it will be in the power of Congress to reduce the number. I acknowledge that there are no direct words of prohibition. But I contend that the true and genuine construction of the clause gives Congress no power whatever to reduce the representation below the number as it now stands. Although they may limit, they can never diminish the number. One representative for every thirty thousand inhabitants is fixed as the standard of increase, till, by the natural course of population, it shall become necessary to limit the ratio.

Probably, at present, were this standard to be immediately applied, the representation would considerably exceed sixty-five. In three years, it would exceed a hundred. If I understand the gentlemen, they contend that the number may be enlarged, or may not. I admit that this is in the discretion of Congress; and I submit to the committee whether it be not necessary and proper. Still, I insist that an immediate limitation is not probable; nor was it in the contemplation of the convention. But, sir, who will presume to say to what precise point the representation ought to be increased? This is a matter of opinion; and opinions are vastly different upon the subject. In Massachusetts, the Assembly consists of about three hundred; in South Carolina, of nearly one hundred; in New York, there are sixty-five. It is observed generally that the number ought to be large. I confess it is difficult for me to say what number may be said to be sufficiently large. On one hand, it ought to be considered that a small number will act with more facility, system, and decision. On the other, that a large one may enhance the difficulty of corruption. The Congress is to consist at first of ninety-one members. This, to a reasonable man, may appear to be as near the proper medium as any number whatever; at least, for the present. There is one source of increase, also, which does not depend upon any constructions of the Constitution: it is the creation of new States. Vermont, Kentucky, and Franklin will probably soon become independent. New members of the Union will also be formed from the unsettled tracts

of western territory. These must be represented, and will all contribute to swell the Federal Legislature. If the whole number in the United States be at present three millions, as is commonly supposed, according to the ratio of one for thirty thousand, we shall have, on the first census, a hundred representatives. In ten years, thirty more will be added; and in twenty-five years, the number will double. Then, sir, we shall have two hundred, if the increase goes on in the same proportion. The convention of Massachusetts, who made the same objection, have fixed upon this number as the point at which they chose to limit the representation. But can we pronounce with certainty that it will not be expedient to go beyond this number? We cannot. Experience alone may determine. This problem may with more safety be left to the discretion of the Legislature, as it will be the interest of the larger and increasing States of Massachusetts, New York, Pennsylvania, etc., to augment the representation. Only Connecticut, Rhode Island, Delaware, and Maryland, can be interested in limiting it. We may, therefore, safely calculate upon a growing representation, according to the advance of population and the circumstances of the country.

The State governments possess inherent advantages, which will ever give them an influence and ascendancy over the National Government, and will for ever preclude the possibility of federal encroachments. That their liberties, indeed, can be subverted by the federal head, is repugnant to every rule of political calculation. Is not this arrangement, then,

sir, a most wise and prudent one? Is not the present representation fully adequate to our present exigencies, and sufficient to answer all the purposes of the Union? I am persuaded that an examination of the objects of the Federal Government will afford a conclusive answer.

Many other observations might be made on this subject, but I cannot now pursue them, for I feel myself not a little exhausted; I beg leave, therefore, to waive for the present the further discussion of this question.

SPEECH ON THE CONSTITUTION RESUMED

June 21, 1788: Mr. Hamilton resumed his argument. When, said he, I had the honor to address the committee yesterday, I gave a history of the circumstances which attended the convention, when forming the plan before you. I endeavored to point out to you the principles of accommodation on which this arrangement was made, and to show that the contending interests of the States led them to establish the representation as it now stands. In the second place, I attempted to prove that, in point of number, the representation would be perfectly secure.

Sir, no man agrees more fully than myself to the main principle for which the gentlemen contend. I agree that there should be a broad democratic branch in the National Legislature. But this matter depends on circumstances. It is impossible, in the first instance, to be precise and exact with regard

to the number; and it is equally impossible to determine to what point it may be brought in future to increase it. On this ground, I am disposed to acquiesce. In my reasonings on the subject of government, I rely more on the interests and opinions of men, than upon any speculative parchment provisions whatever. I have found that constitutions are more or less excellent, as they are more or less agreeable to the natural operation of things; I am therefore disposed not to dwell long on curious speculations, or pay much attention to modes and forms, but to adopt a system whose principles have been sanctioned by experience, adapt it to the real state of our country, and depend on probable reasonings for its operation and result. I contend that sixty-five and twenty-six, in two bodies, afford perfect security in the present state of things; and that the regular progressive enlargement, which was in the contemplation of the general convention, will leave not an apprehension of danger in the most timid and suspicious mind. It will be the interest of the large States to increase the representation. This will be the standing instruction to their delegates. But the members of Congress will be interested not to increase the number, as it will diminish their relative influence. In all the reasoning upon this subject, there seems to be this fallacy: They suppose that the representative will have no motive of action, on the one side, but a sense of duty; or, on the other, but corruption. They do not reflect that he is to return to the community—that he is dependent on the will of the people—and that it

cannot be his interest to oppose their wishes. Sir, the general sense of the people will regulate the conduct of their representatives. I admit that there are exceptions to this rule. There are certain conjunctures when it may be necessary and proper to disregard the opinions which the majority of the people have formed; but, in the general course of things, the popular views, and even prejudices, will direct the actions of the rulers.

All governments, even the most despotic, depend, in a great degree, on opinion. In free republics it is most peculiarly the case. In these the will of the people makes the essential principle of the government, and the laws which control the community receive their tone and spirit from the public wishes. It is the fortunate situation of our country, that the minds of the people are exceedingly enlightened and refined. Here, then, we may expect the laws to be proportionately agreeable to the standard of a perfect policy, and the wisdom of public measures to consist with the most intimate conformity between the views of the representative and his constituent. If the general voice of the people be for an increase, it undoubtedly must take place. They have it in their power to instruct their representatives, and the State Legislatures, which appoint the Senators, may enjoin it also upon them. If I believed that the number would remain at sixty-five, I confess I should give my vote for an amendment, though in a different form from the one proposed.

The amendment proposes a ratio of one for twenty thousand. I would ask: By what rule or reasoning

is it determined that one man is a better representative for twenty than for thirty thousand? At present we have three millions of people; in twenty-five years we shall have six millions; and in forty years nine millions; and this is a short period as it relates to the existence of States. Here, then, according to the ratio of one for thirty thousand, we shall have, in forty years, three hundred representatives. If this be true, and if this be a safe representation, why be dissatisfied? Why embarrass the Constitution with amendments that are merely speculative and useless? I agree with the gentleman, that a very small number might give some color for suspicion. I acknowledge that ten would be unsafe; on the other hand, a thousand would be too numerous. But, I ask him, why will not ninety-one be an adequate and safe representation? This, at present, appears to be the proper medium. Besides, the President of the United States will be himself the representative of the people. From the competition that ever subsists between the branches of the government, the President will be induced to protect their rights, whenever they are invaded by either branch. On whatever side we view this subject, we discover various and powerful checks to the encroachments of Congress. The true and permanent interests of the members are opposed to corruption. Their number is vastly too large for easy combination. The rivalry between the houses will for ever prove an insuperable obstacle. The people have an obvious and powerful protection in their own State governments. Should anything dangerous be

attempted, these bodies of perpetual observation will be capable of forming and conducting plans of regular opposition. Can we suppose the people's love of liberty will not, under the incitement of their legislative leaders, be roused into resistance, and the madness of tyranny be extinguished at a blow? Sir, the danger is too distant; it is beyond all rational calculations.

It has been observed that a pure democracy, if it were practicable, would be the most perfect government. Experience has proved, that no position in politics is more false than this. The ancient democracies, in which the people themselves deliberated, never possessed one feature of good government. Their very character was tyranny; their figure deformity. When they assembled, the field of debate presented an ungovernable mob, not only incapable of deliberation, but prepared for every enormity. In these assemblies the enemies of the people brought forward their plans of ambition systematically. They were opposed by their enemies of another party; and it became a matter of contingency, whether the people subjected themselves to be led blindly by one tyrant or by another.

It was remarked yesterday that a numerous representation was necessary to obtain the confidence of the people. This is not generally true. The confidence of the people will easily be gained by a good administration. This is the true touchstone. I could illustrate the position by a variety of historical examples both ancient and modern. In Sparta, the Ephori were a body of magistrates, instituted as a

check upon the Senate and representing the people. They consisted of only five men; but they were able to protect their rights, and therefore enjoyed their confidence and attachment. In Rome the people were represented by three tribunes, who were afterwards increased to ten. Every one acquainted with the history of that republic will recollect how powerful a check to the senatorial encroachments this small body proved; how unlimited a confidence was placed in them by the people whose guardians they were; and to what a conspicuous station in the government their influence at length elevated the plebeians. Massachusetts has three hundred representatives; New York has sixty-five. Have the people in this State less confidence in their representation than the people of that? Delaware has twenty-one: do the inhabitants of New York feel a higher confidence than those of Delaware? I have stated these examples to prove that the position is not just. The popular confidence depends on circumstances very distinct from considerations of number. Probably the public attachment is more strongly secured by a train of prosperous events, which are the result of wise deliberation and of vigorous execution, and to which large bodies are much less competent than small ones. If the representative conducts with propriety, he will necessarily enjoy the good-will of the constituent. It appears, then, if my reasoning be just, that the clause is perfectly proper, upon the principles of the gentleman who contends for the amendment, as there is in it the greatest degree of present security,

and a moral certainty of an increase equal to our utmost wishes.

It has been observed that a large representation is necessary to understand the true interests of the people. This opinion is by no means true in the extent to which it is carried. I would ask: Why may not a man understand the interests of thirty as well as of twenty? The position appears to be based upon the unfounded presumption that all the interests of all parts of the community must be represented. No idea is more erroneous than this. Only such interests are proper to be represented as are involved in the powers of the General Government. These interests come completely under the observation of one or a few men; and the requisite information is by no means augmented in proportion to the increase of number. What are the objects of the government? Commerce, taxation, etc. In order to comprehend the interests of commerce, is it necessary to know how wheat is raised, and in what proportion it is produced in one district and in another? By no means. Neither is this species of knowledge necessary in general calculations upon the subject of taxation. The information necessary for these purposes is that which is open to every intelligent inquirer; and of which five men may be as perfectly possessed as fifty. In regal governments there are usually particular men to whom the business of taxation is committed. These men have the forming of systems of finance and the regulation of the revenue. I do not mean to commend this practice. It proves, however, this point: that a few in-

dividuals may be competent to these objects; and that large numbers are not necessary to perfection in the science of taxation. But, granting for a moment that this minute and local knowledge the gentlemen contend for is necessary, let us see if, under the new Constitution, it will not probably be found in the representation. The natural and proper mode of holding elections will be to divide the State into districts, in proportion to the number to be elected. This State will consequently be divided at first into six. One man from each district will probably possess all the knowledge the gentlemen can desire. Are the Senators of this State more ignorant of the interests of the people than the Assembly? Have they not ever enjoyed their confidence as much? Yet, instead of six districts, they are elected in four; and the chance of their being elected from the smaller divisions of the State consequently diminished. Their number is but twenty-four; and their powers are coextensive with those of the Assembly, and reach objects which are most dear to the people—life, liberty, and property.

We hear constantly a great deal which is more calculated to awake our passions and create prejudices than to conduct us to truth and teach us our real interests. I do not suppose this to be the design of gentlemen. Why, then, are we told so often of an aristocracy? For my part, I hardly know the meaning of this word as it is applied. If all we hear be true, this government is really a very bad one. But who are the aristocracy among us? Where do we find men elevated to a perpetual rank among

our fellow-citizens, and possessing powers entirely independent of them? The arguments of the gentlemen only go to prove that there are men who are rich, men who are poor; some who are wise, and others who are not; that, indeed, every distinguished man is an aristocrat. Does the new government render a rich man more eligible than a poor one? No! It requires no such qualification. It is bottomed on the broad and equal principle of your State constitution.

Sir, if the people have it in their option to elect their most meritorious men, is this to be considered an objection? Shall the Constitution oppose their wishes and abridge their most invaluable privilege? While property continues to be pretty equally divided, and a considerable share of information pervades the community, the tendency of the people's suffrages will be to elevate merit even from obscurity. As riches increase and accumulate in few hands, as luxury prevails in society, virtue will be in a greater degree considered as only a graceful appendage of wealth, and the tendency of things will be to depart from the republican standard. This is the real disposition of human nature; it is what neither the honorable member nor myself can correct. It is a common misfortune that awaits our State constitution, as well as all others.

There is an advantage incident to large districts of election, which, perhaps, the gentlemen, amidst all their apprehensions of influence and bribery, have not adverted to. In large districts the corruption of the electors is much more difficult. Combinations

for the purposes of intrigue are less easily formed. Factions and cabals are little known. In a small district, wealth will have a more complete influence, because the people in the vicinity of a great man are more immediately his dependents, and because this influence has fewer objects to act upon. It has been remarked that it would be disagreeable to the middle class of men to go to the seat of the new government. If this be so the difficulty will be enhanced by the gentleman's proposal. If his argument be true, it proves that the larger the representation is the less will be your chance of having it filled. But, it appears to me frivolous to bring forward such arguments as these. It has answered no other purpose than to induce me, by way of reply, to enter into discussions which I consider as useless and not applicable to our subject.

It is a harsh doctrine, that men grow wicked in proportion as they improve and enlighten their minds. Experience has by no means justified us in the supposition that there is more virtue in one class of men than in another. Look through the rich and the poor of the community; the learned and the ignorant. Where does virtue predominate? The difference indeed consists, not in the quantity, but kind of vices, which are incident to the various classes; and here the advantage of character belongs to the wealthy. Their vices are probably more favorable to the prosperity of the State than those of the indigent, and partake less of moral depravity.

After all, we must submit to this idea, that the true principle of a republic is that the people should

choose whom they please to govern them. Representation is imperfect in proportion as the current of popular favor is checked. This great source of free government, popular election, should be perfectly pure, and the most unbounded liberty allowed. Where this principle is adhered to; where, in the organization of the government, the legislative, executive, and judicial branches are rendered distinct; where, again, the legislative is divided into separate houses, and the operations of each are controlled by various checks and balances, and above all by the vigilance and weight of the State governments, to talk of tyranny and the subversion of our liberties, is to speak the language of enthusiasm. This balance between the National and State governments ought to be dwelt on with peculiar attention, as it is of the utmost importance. It forms a double security to the people. If one encroaches on their rights they will find a powerful protection in the other. Indeed, they will both be prevented from overpassing their constitutional limits by a certain rivalry, which will ever subsist between them. I am persuaded that a firm union is as necessary to perpetuate our liberties as it is to make us respectable; and experience will probably prove that the National Government will be as natural a guardian of our freedom as the State Legislatures themselves.

Suggestions of an extraordinary nature have been frequently thrown out in the course of the present political controversy. It gives me pain to dwell on topics of this kind; and I wish they might be dis-

missed. We have been told that the old Confederation has proved inefficacious, only because intriguing and powerful men, aiming at a revolution, have been for ever instigating the people and rendering them disaffected to it. This, sir, is a false insinuation.

I will venture to assert that no combination of designing men under heaven will be capable of making a government unpopular which is in its principles a wise and good one, and vigorous in its operations.

The Confederation was framed amidst the agitation and tumult of society. It was composed of unsound materials, put together in haste. Men of intelligence discovered the feebleness of the structure in the first stages of its existence, but the great body of the people, too much engrossed with their distresses to contemplate any but the immediate causes of them, were ignorant of the defects of their Constitution. But, when the dangers of war were removed, they saw clearly what they had suffered, and what they had yet to suffer from a feeble form of government. There was no need of discerning men to convince the people of their unhappy situation. The complaint was coextensive with the evil, and both were common to all classes of the community. We have been told that the spirit of patriotism and love of liberty are almost extinguished among the people, and that it has become a prevailing doctrine, that republican principles ought to be hooted out of the world. Sir, I am confident that such remarks as these are rather occasioned by the heat of argument, than by a cool conviction of their truth and

justice. As far as my experience has extended, I have heard no such doctrine, nor have I discovered any diminution of regard for those rights and liberties, in defence of which the people have fought and suffered. There have been, undoubtedly, some men who have had speculative doubts on the subject of government, but the principles of republicanism are founded on too firm a basis to be shaken by a few speculative and skeptical reasoners. Our error has been of a very different kind. We have erred through excess of caution, and a zeal false and impracticable. Our councils have been destitute of consistency and stability. I am flattered with a hope, sir, that we have now found a cure for the evils under which we have so long labored. I trust that the proposed Constitution affords a genuine specimen of representative and republican government; and that it will answer, in an eminent degree, all the beneficial purposes of society.

June 21, 1788—Mr. Hamilton: Mr. Chairman, I rise to take notice of the observation of the honorable member from Ulster. I imagine the objections he has stated are susceptible of a complete and satisfactory refutation. But, before I proceed to this, I shall attend to the arguments advanced by the gentleman from Albany and Dutchess. These arguments have been frequently urged, and much confidence has been placed in their strength. The danger of corruption has been dwelt upon with peculiar emphasis, and presented to our view in the most heightened and unnatural coloring. Events merely possible have been magnified, by distempered im-

agination, into inevitable realities; and the most distant and doubtful conjectures have been formed into a serious and infallible prediction. In the same spirit, the most fallacious calculations have been made. The lowest possible quorum has been contemplated, as the number to transact important business, and a majority of these to decide in all cases on questions of infinite moment. Allowing, for the present, the propriety and truth of these apprehensions, it would be easy, in comparing the two Constitutions, to prove that the chances of corruption under the new are much fewer than those to which the old is exposed. Under the old Confederation, the important powers of declaring war, making peace, etc., can be exercised by nine States. On the presumption that the smallest constitutional number will deliberate and decide, those interesting powers will be committed to fewer men under the ancient than under the new government. In the former, eighteen members, in the latter, not less than twenty-four, may determine all great questions. Thus, on the principles of the gentlemen, the fairer prospect of safety is clearly visible in the new government. That we may have the fullest conviction of the truth of this position, it ought to be suggested, as a decisive argument, that it will ever be the interest of the several States to maintain, under the new government, an ample representation; for, as every member has a vote, the relative influence and authority of each State will be in proportion to the number of representatives she has in Congress. There is not, therefore, a shadow of probability that

the number of acting members, in the General Legislature, ever will be reduced to a bare quorum; especially as the expense of their support is to be defrayed from a federal treasury. But, under the existing Confederation, each State has but one vote. It will be a matter of indifference, on the score of influence, whether she delegates two or six representatives; and the maintenance of them, forming a striking article in the State expenditures, will for ever prove a capital inducement to retain or withdraw from the Federal Legislatures those delegates which her selfishness may too often consider as superfluous. There is another source of corruption, in the old government, which the proposed plan is happily calculated to remedy. The concurrence of nine States, as has been observed, is necessary to pass resolves the most important, and on which the safety of the public may depend. If these nine States are at any time assembled, a foreign enemy, by dividing a State, and gaining over and silencing a single member, may frustrate the most indispensable plan of national policy, and totally prevent a measure essential to the welfare or existence of the empire. Here, then, we find a radical, dangerous defect, which will for ever embarrass and obstruct the machine of government, and suspend our fate on the uncertain virtue of an individual.

What a difference between the old and new Constitution strikes our view! In the one, corruption must embrace a majority; in the other, her poison, administered to a single man, may render the efforts of a majority totally vain. This mode of corruption

is still more dangerous, as its operations are more secret and imperceptible. The exertions of active villany are commonly accompanied with circumstances which tend to its own exposure; but this negative kind of guilt has so many plausible apologies as almost to elude suspicion.

In all reasonings on the subject of corruption, much use has been made of the examples furnished by the British House of Commons. Many mistakes have arisen from fallacious comparisons between our government and theirs. It is time that the real state of this matter should be explained. By far the greatest part of the House of Commons is composed of representatives of towns and boroughs. These towns had anciently no voice in Parliament; but on the extension of commercial wealth and influence, they were admitted to a seat. Many of them are in possession and gift of the king; and, from their dependence on him, and the destruction of the right of free election, they are stigmatized with the appellation of rotten boroughs. This is the true source of the corruption which has so long excited the severe animadversion of zealous politicians and patriots. But the knights of the shire, who form another branch of the House of Commons, and who are chosen from the body of the counties they represent, have been generally esteemed a virtuous and incorruptible set of men. I appeal, sir, to the history of that House; this will show us that the rights of the people have ever been safely trusted to their protection; that they have been the ablest bulwarks of the British commons; and that, in the

conflict of parties, by throwing their weight into one scale or the other, they have uniformly supported and strengthened the constitutional claims of the people.

Notwithstanding the cry of corruption that has been perpetually raised against the House of Commons, it has been found that that House, sitting at first without any constitutional authority, became at length an essential member of the legislature, that they have since, by regular gradations, acquired new and important accessions of privileges and that they have, on numerous occasions, impaired the prerogative and limited the monarchy.

An honorable member from Dutchess (Mr. Smith) has observed that the delegates from New York (for example) can have very little information of the local circumstances of Georgia or South Carolina, except from the representatives of those States; and on this ground insists upon the expediency of an enlargement of the representation; since, otherwise, the majority must rely too much on the information of a few. In order to determine whether there is any weight in this reasoning, let us consider the powers of the National Government, and compare them with the objects of State legislation. The powers of the new government are general, and calculated to embrace the aggregate interests of the Union, and the general interest of each State, so far as it stands in relation to the whole. The object of the State governments is to provide for their internal interests, as unconnected with the United States, and as composed of minute parts or

districts. A particular knowledge, therefore, of the local circumstances of any State, as they may vary in different districts, is unnecessary for the federal representative. As he is not to represent the interests or local wants of the county of Dutchess or Montgomery, neither is it necessary that he should be acquainted with their particular resources. But in the State governments, as the laws regard the interest of the people, in all their various minute divisions, it is necessary that the smallest interests should be represented. Taking these distinctions into view, I think it must appear evident that one discerning and intelligent man will be as capable of understanding and representing the general interests of a State as twenty; because one man can be as fully acquainted with the general state of the commerce, manufactures, population, production, and common resources of a State, which are the proper objects of federal legislation. It is presumed that few men originally possess a complete knowledge of the circumstances of other States. They must rely, therefore, on the information to be collected from the representatives of those States. And if the above reasoning be just, it appears evident, I imagine, that this reliance will be as secure as can be desired. Sir, in my experience of public affairs, I have constantly remarked, in the conduct of the members of Congress, a strong and uniform attachment to the interests of their own State.

These interests have on many occasions been adhered to with an undue and illiberal pertinacity, and have too often been preferred to the welfare of the

Union. This attachment has given birth to an unaccommodating spirit of party, which has frequently embarrassed the best measures. It is by no means, however, an object of surprise. The early connections we have formed, the habits and prejudices in which we have been bred, fix our affections so strongly, that no future objects of association can easily eradicate them. This, together with the entire and immediate dependence the representative feels on his constituent, will generally incline him to prefer the particular before the public good. The subject on which this argument of a small representation has been most plausibly used, is taxation. As to internal taxation, in which the difficulty principally rests, it is not probable that any general regulation will originate in the National Legislature. If Congress, in times of great danger and distress, should be driven to this resource, they will undoubtedly adopt such measures as are most conformable to the laws and customs of each State. They will take up your own codes, and consult your own systems. This is a source of information which cannot mislead, and which will be equally accessible to every member. It will teach them the most certain, safe, and expeditious mode of laying and collecting taxes in each State. They will appoint the officers of revenue agreeably to the spirit of your particular establishments, or they will make use of their own. Sir, the most powerful obstacle to the members of Congress betraying the interests of their constituents, is the State Legislatures themselves, who will be standing bodies of observation, possess-

ing the confidence of the people, jealous of federal encroachments, and armed with every power to check the first essays of treachery. They will institute regular modes of inquiry. The complicated domestic attachments which subsist between State legislators and their electors, will ever make them vigilant guardians of the people's rights. Possessed of the means and the disposition of resistance, the spirit of opposition will be easily communicated to the people, and, under the conduct of an authorized body of leaders, will act with weight and system. Thus it appears that the very structure of the Confederacy affords the surest preventives from error, and the most powerful checks to misconduct.

Sir, there is something in an argument that has been urged, which, if it proves any thing, concludes against all union and all governments; it goes to prove that no powers should be entrusted to any body of men, because they may be abused. This is an argument of possibility and chance—one that would render useless all reasonings upon the probable operation of things, and defeat the established principles of natural and moral causes. It is a species of reasoning sometimes used to excite popular jealousies, but is generally discarded by wise and discerning men. I do not suppose that the honorable member who advanced the idea had any such design. He undoubtedly would not wish to extend arguments to the destruction of union or government; but this, sir, is its real tendency. It has been asserted that the interests, habits, and manners of

the thirteen States are different; and hence it is inferred that no general free government can suit them. This diversity of habits, etc., has been a favorite theme with those who are disposed for a division of our empire, and, like many other popular objections, seems to be founded on fallacy. I acknowledge that the local interests of the States are in some degree various, and that there is some difference in the manners and habits. But this I will presume to affirm, that from New Hampshire to Georgia the people of America are as uniform in their interests and manners as those of any established in Europe. This diversity, to the eye of a speculatist, may afford some marks of characteristic discrimination, but cannot form an impediment to the regular operation of those general powers which the Constitution gives to the united government. Were the laws of the Union to new-model the internal police of any State; were they to alter, or abrogate at a blow, the whole of its civil and criminal institutions; were they to penetrate the recesses of domestic life, and control, in all respects, the private conduct of individuals,—there might be more force in the objections; and the same Constitution, which was happily calculated for one State, might sacrifice the welfare of another. Though the difference of interests may create some difficulty, and apparent partiality, in the first operations of government, yet the same spirit of accommodation, which produced the plan under discussion, would be exercised in lessening the weight of unequal burdens. Add to this that, under the regular and gentle influence of gen-

eral laws, these varying interests will be constantly assimilating, till they embrace each other and assume the same complexion.—*Elliot's Debates*, vol. ii.

June 21, 1788.—Mr. Hamilton: I only rise to observe that the gentleman has misunderstood me. What I meant to express was this: that if we argued from possibilities only,—if we reasoned from chances, or an ungovernable propensity to evil, instead of taking into view the control which the nature of things, or the form of the Constitution, provided,—the argument would lead us to withdraw all confidence from our fellow-citizens, and discard the chimerical idea of government. This is a true deduction from such reasoning.—*Elliot's Debates*, vol. ii.

June 21, 1788.—Mr. Hamilton: It is not my design, Mr. Chairman, to extend this debate by any new arguments on the general subject. I have delivered my sentiments so fully on what has been advanced by the gentleman this morning, that any further reasoning from me will be easily dispensed with. I only rise to state a fact with respect to the motives which operated in the General Convention. I had the honor to state to the committee the diversity of interests which prevailed between the navigating and non-navigating, the large and the small, States, and the influence which those States had upon the conduct of each. It is true, a difference did take place between the large and the small States, the latter insisting on equal advantages in the House of Representatives. Some private business calling me to New York, I left the Convention for a few days; on my return, I found a plan reported by the

committee of details; and soon after, a motion was made to increase the number of representatives. On this occasion, the members rose from one side and the other, and declared that the plan reported was entirely a work of accommodation, and that to make any alterations in it would destroy the Constitution. I discovered that several of the States, particularly New Hampshire, Connecticut, and New Jersey, thought it would be difficult to send a great number of delegates from the extremes of the continent to the national government; they apprehended their constituents would be displeased with a very expensive government; and they considered it as a formidable objection. After some debate on this motion, it was withdrawn. Many of the facts stated by the gentleman and myself are not substantially different. The truth is, the plan, in all its parts, was a plan of accommodation.—*Elliot's Debates*, vol. ii.

SPEECH ON THE SENATE OF THE UNITED STATES

June 24, 1788.—I am persuaded that I, in my turn, shall be indulged in addressing the committee. We all, with equal sincerity, profess to be anxious for the establishment of a republican government, on a safe and solid basis. It is the object of the wishes of every honest man in the United States; and I presume I shall not be disbelieved when I declare, that it is an object, of all others, the nearest and most dear to my own heart. The means of accomplishing this great purpose become the most

important study which can interest mankind. It is our duty to examine all those means with peculiar attention, and to choose the best and most effectual. It is our duty to draw from nature, from reason, from examples, the justest principles of policy, and to pursue and apply them in the formation of our government. We should contemplate and compare the systems which, in the examination, come under our view; distinguish with a careful eye the defects and excellencies of each, and discarding the former, incorporate the latter, as far as circumstances will admit, into our Constitution. If we pursue a different course, and neglect this duty, we shall probably disappoint the expectations of our country and of the world.

In the commencement of a revolution, which received its birth from the usurpations of tyranny, nothing was more natural than that the public mind should be influenced by an extreme spirit of jealousy. To resist these encroachments, and to nourish this spirit, was the great object of all our public and private institutions. The zeal for liberty became predominant and excessive. In forming our Confederation, this passion alone seemed to actuate us, and we appear to have had no other view than to secure ourselves from despotism. The object certainly was a valuable one, and deserved our utmost attention. But there is another object, equally important, and which our enthusiasm rendered us little capable of regarding. I mean a principle of strength and stability in the organization of our government, and of vigor in its operations. This

purpose could never be accomplished but by the establishment of some select body, formed peculiarly on this principle. There are few positions more demonstrable than that there should be in every republic some permanent body, to correct the prejudices, check the intemperate passions, and regulate the fluctuations of a popular assembly. It is evident that a body instituted for these purposes must be so formed as to exclude as much as possible from its own character those infirmities and that mutability which it is designed to remedy. It is, therefore, necessary that it should be small, that it should hold its authority during a considerable period, and that it should have such an independence in the exercise of its powers, as will divest it, as much as possible, of local prejudices. It should be so formed as to be the centre of political knowledge; to pursue always a steady line of conduct, and to reduce every irregular propensity to system. Without this establishment we may make experiments without end, but shall never have an efficient government.

It is an unquestionable truth, that the body of the people in every country desire sincerely its prosperity. But it is equally unquestionable that they do not possess the discernment and stability necessary for systematic government. To deny that they are frequently led into the grossest errors, by misinformation and passion, would be a flattery which their own good sense must despise. That branch of administration, especially, which involves our political relation with foreign states, a community will ever be incompetent to. These truths are not often

held up in public assemblies; but they cannot be unknown to any who hear me. From these principles, it follows that there ought to be two distinct bodies in our government: one which shall be immediately constituted by and peculiarly represent the people, and possess all the popular features; another formed upon the principles and for the purposes before explained. Such considerations as these induced the convention who formed your State constitution to institute a Senate upon the present plan. The history of ancient and modern republics had taught them that many of the evils which those republics suffered arose from the want of a certain balance, and that mutual control indispensable to a wise administration. They were convinced that popular assemblies are frequently misguided by ignorance, by sudden impulses, and the intrigues of ambitious men; and that some firm barrier against these operations was necessary. They, therefore, instituted your Senate; and the benefits we have experienced have fully justified their conceptions.

What is the tendency of the proposed amendment? To take away the stability of government, by depriving the Senate of its permanency. To make this body subject to the same weakness and prejudices which are incident to popular assemblies, and which it was instituted to correct; to destroy the balance between them. The amendment will render the Senator a slave to all the capricious humors among the people. It will probably be here suggested that the Legislatures, not the people, are to have the power of recall. Without attempting to

prove that the Legislatures must be, in a great degree, the image of the multitude in respect to federal affairs, and that the same prejudices and factions will prevail, I insist that, in whatever body the power of recall is vested, the senator will perpetually feel himself in such a state of vassalage and dependence that he never can possess that firmness which is necessary to the discharge of his great duty to the Union.

Gentlemen in their reasoning have placed the interests of the several States and those of the United States in contrast. This is not a fair view of the subject. They must necessarily be involved in each other. What we apprehend is, that some sinister prejudice, or some prevailing passion, may assume the form of a genuine interest. The influence of these is as powerful as the most permanent conviction of the public good, and against this influence we ought to provide. The local interest of a State ought in every case to give way to the interests of the Union. For when a sacrifice of one or the other is necessary, the former becomes only an apparent, partial interest, and should yield, on the principle that the smaller good ought never to oppose the greater one. When you assemble from your several counties in the Legislature, were every member to be guided only by the apparent interest of his county, government would be impracticable. There must be a perpetual accommodation and sacrifice of local advantage to general expediency. But the spirit of a more popular assembly would rarely be actuated by this important principle. It is, therefore, abso-

lutely necessary that the Senate should be so formed as to be unbiassed by false conceptions of the real interests, or undue attachment to the apparent good of their several States.

Gentlemen indulge too many unreasonable apprehensions of danger to the State governments. They seem to suppose that the moment you put men into the national council, they become corrupt and tyrannical, and lose all their affection for their fellow-citizens. But can we imagine that the Senators will ever be so insensible of their own advantage as to sacrifice the genuine interest of their constituents? The State governments are essentially necessary to the form and spirit of the general system. As long, therefore, as Congress have a full conviction of this necessity, they must, even upon principles purely national, have as firm an attachment to the one as to the other. This conviction can never leave them unless they become madmen. While the Constitution continues to be read, and its principles known, the States must, by every rational man, be considered as essential component parts of the Union; and therefore the idea of sacrificing the former to the latter is totally inadmissible.

The objectors do not revert to the natural strength and resources of the State governments, which will ever give them an important superiority over the General Government. If we compare the nature of their different powers, or the means of popular influence which each possesses, we shall find the advantage entirely on the side of the States. This consideration, important as it is, seems to have been

little attended to. The aggregate number of representatives throughout the States may be two thousand. Their personal influence will therefore be proportionably more extensive than that of one or two hundred men in Congress. The State establishments of civil and military officers of every description, infinitely surpassing in number any corresponding establishments in the General Government, will create such an extent and complication of attachments as will ever secure the predilection and support of the people. Whenever, therefore, Congress shall meditate any infringement of the State Constitutions, the great body of the people will naturally take part with their domestic representatives. Can the General Government withstand such a united opposition? Will the people suffer themselves to be stripped of their privileges? Will they suffer their Legislatures to be reduced to a shadow and a name? The idea is shocking to common-sense.

From the circumstances already explained, and many others which might be mentioned, results a complicated, irresistible check, which must ever support the existence and importance of the State governments. The danger, if any exists, flows from an opposite source. The probable evil is that the General Government will be too dependent on the State Legislatures, too much governed by their prejudices, and too obsequious to their humors; that the States, with every power in their hands, will make encroachments on the national authority till the Union is weakened and dissolved.

Every member must have been struck with an

observation of a gentleman from Albany. Do what you will, he says, local prejudices and opinions will go into the government. What! shall we then form a Constitution to cherish and strengthen these prejudices? Shall we confirm the distemper instead of remedying it? It is undeniable that there must be a control somewhere. Either the general interest is to control the particular interests, or the contrary. If the former, then certainly the government ought to be so framed as to render the power of control efficient to all intents and purposes; if the latter, a striking absurdity follows. The controlling powers must be as numerous as the varying interests, and the operations of government must therefore cease. For the moment you accommodate these differing interests, which is the only way to set the government in motion, you establish a general controlling power. Thus, whatever constitutional provisions are made to the contrary, every government will be at last driven to the necessity of subjecting the partial to the universal interest. The gentlemen ought always, in their reasoning, to distinguish between the real, genuine good of a State, and the opinions and prejudices which may prevail respecting it. The latter may be opposed to the general good, and consequently ought to be sacrificed; the former is so involved in it that it never can be sacrificed. Sir, the main design of the convention, in forming the Senate, was to prevent fluctuations and cabals. With this view they made that body small, and to exist for a considerable period. Have they carried this design too far? The Senators are to serve six

years. This is only two years longer than the Senators of this State hold their places. One third of the members are to go out every two years; and in six the whole body may be changed. Prior to the Revolution, the representatives in the several colonies were elected for different periods; for three years, for seven years, etc. Were those bodies ever considered as incapable of representing the people, or as too independent of them? There is one circumstance which will have a tendency to increase the dependence of the Senators on the States, in proportion to the duration of their appointments. As the State Legislatures are in continual fluctuation, the Senator will have more attachments to form, and consequently a greater difficulty of maintaining his place, than one of shorter duration. He will therefore be more cautious and industrious to suit his conduct to the wishes of his constituents.

When you take a view of all the circumstances which have been recited, you will certainly see that the Senators will constantly look up to the State governments with an eye of dependence and affection. If they are ambitious to continue in office, they will make every prudent arrangement for this purpose, and whatever may be their private sentiments of politics, they will be convinced that the surest means of obtaining a reëlection will be a uniform attachment to the interests of their several States.

In support of this amendment it has been observed that the power of recall, under the old government, has never been exercised. There is no

reasoning from this. The experience of a few years, under peculiar circumstances, can afford no probable security that it never will be carried into execution with unhappy effects. A seat in Congress has been less an object of ambition; and the arts of intrigue, consequently, have been less practised. Indeed, it has been difficult to find men who were willing to suffer the mortifications to which so feeble a government and so dependent a station exposed them.

Sir, if you consider but a moment the purposes for which the Senate was instituted, and the nature of the business which they are to transact, you will see the necessity of giving them duration. They, together with the President, are to manage all our concerns with foreign nations. They must understand all their interests and their political systems. This knowledge is not soon acquired,—but a very small part is gained in the closet. Is it desirable that new and unqualified members should be continually thrown into that body? When public bodies are engaged in the exercise of general powers, you cannot judge of the propriety of their conduct, but from the result of their systems. They may be forming plans which require time and diligence to bring to maturity. It is necessary, therefore, that they should have a considerable and fixed duration, that they may make their calculations accordingly. If they are to be perpetually fluctuating, they can never have that responsibility which is so important in republican governments. In bodies subject to frequent changes great political plans must be conducted by members in succession; a single Assembly

can have but a partial agency in them, and consequently cannot be answerable for the final event. Considering the Senate, therefore, with a view to responsibility, duration is a very interesting and essential quality. There is another view in which duration in the Senate appears necessary; a government changeable in its policy must soon lose its sense of national character and forfeit the respect of foreigners. Senators will not be solicitous for the reputation of public measures in which they have had but a temporary concern, and will feel lightly the burthen of public disapprobation in proportion to the number of those who partake of the censure. Our political rivals will ever consider our most able counsels as evidence of deficient wisdom, and will be little apprehensive of our arriving at any exalted station in the scale of power. Such are the internal and external disadvantages which would result from the principle contended for. Were it admitted, I am firmly persuaded, sir, that prejudices would govern the public deliberations, and passions rage in the counsels of the Union. If it were necessary, I could illustrate my subject by historical facts. I could travel through an extensive field of detail, and demonstrate that wherever the fatal principle of the head suffering the control of the members has operated, it has proved a fruitful source of commotions and disorder.

This is the first fair opportunity that has been offered of deliberately correcting the errors in government. Instability has been a prominent and very defective feature in most republican systems.

It is the first to be seen and the last to be lamented by a philosophical inquirer. It has operated most banefully in our infant republics. It is necessary that we apply an immediate remedy, and eradicate the poisonous principle from our government. If this be not done, we shall feel, and posterity will be convulsed by, a painful malady.

June 25th.—Mr. Hamilton: Mr. Chairman, in debates of this kind, it is extremely easy, on either side, to say a great number of plausible things. It is to be acknowledged that there is even a certain degree of truth in the reasonings on both sides. In this situation, it is the province of judgment and good sense to determine their force and application, and how far the arguments advanced on one side are balanced by those on the other. The ingenious dress in which both appear renders it a difficult task to make this decision, and the mind is frequently unable to come to a safe and solid conclusion. On the present question, some of the principles on each side are admitted, and the conclusions from them denied, while other principles, with their inferences, are rejected altogether. It is the business of the committee to seek the truth in this labyrinth of argument. There are two objects in forming systems of government—safety for the people, and energy in the administration. When these objects are united, the certain tendency of the system will be to the public welfare. If the latter object be neglected, the people's security will be as certainly sacrificed as by disregarding the former. Good constitutions are formed upon a comparison of the

liberty of the individual with the strength of government. If the tone of either be too high, the other will be weakened too much. It is the happiest possible mode of conciliating these objects, to institute one branch peculiarly endowed with sensibility, another with knowledge and firmness. Through the opposition and mutual control of these bodies, the government will reach, in its operations, the perfect balance between liberty and power. The arguments of the gentlemen chiefly apply to the former branch of the House of Representatives. If they will calmly consider the different nature of the two branches, they will see that the reasoning which justly applies to the representative House will go to destroy the essential qualities of the Senate. If the former is calculated perfectly upon the principles of caution, why should you impose the same principles upon the latter, which is designed for a different operation? Gentlemen, while they discover a laudable anxiety for the safety of the people, do not attend to the important distinction I have drawn. We have it constantly held up to us, that, as it is our chief duty to guard against tyranny, it is our policy to form all branches of government for this purpose.

Sir, it is a truth sufficiently illustrated by experience, that when the people act by their representatives they are commonly irresistible. The gentleman admits the position, that stability is essential to the government, and yet enforces principles which, if true, ought to banish stability from the system. The gentleman observes, that there is a fallacy in my reasoning, and informs us that the Legislatures

of the States, not the people, are to appoint the Senators. Does he reflect that they are the immediate agents of the people, that they are so constituted as to feel all their prejudices and passions, and to be governed, in a great degree, by their misapprehensions? Experience must have taught him the truth of this. Look through their history: what factions have arisen from the most trifling causes! What intrigues have been practised for the most illiberal purposes! Is not the State of Rhode Island, at this moment, struggling under difficulties and distresses, for having been led blindly by the spirit of the multitude? What is her Legislature but the picture of a mob? In this State, we have a Senate, possessed of the proper qualities of a permanent body. Virginia, Maryland, and a few other States are in the same situation. The rest are either governed by a single democratic Assembly, or have a Senate constituted entirely upon democratic principles. These have been more or less embroiled in factions, and have generally been the image and echo of the multitude. It is difficult to reason on this point, without touching on certain delicate chords. I could refer you to periods and conjunctures when the people have been governed by improper passions, and led by factious and designing men. I could show that the same passions have infected their representatives. Let us beware that we do not make the State Legislatures a vehicle in which the evil humors may be conveyed into the national system. To prevent this, it is necessary that the Senate should be so formed, as in some

measure to check the State governments, and preclude the communication of the false impressions which they receive from the people. It has been often repeated, that the Legislatures of the States can have only a partial and confined view of national affairs; that they can form no proper estimate of great objects which are not in the sphere of their interests. The observation of the gentleman, therefore, cannot take off the force of the argument.

Sir, the Senators will constantly be attended with a reflection that their future existence is absolutely in the power of the States. Will not this form a powerful check? It is a reflection which applies closely to their feelings and interests; and no candid man who thinks deliberately will deny that it would be alone a sufficient check. The Legislatures are to provide the mode of electing the President, and must have a great influence over the electors. Indeed, they convey their influence through a thousand channels into the General Government. Gentlemen have endeavored to show that there will be no clashing of local and general interests; they do not seem to have considered the subject. We have, in this State, a duty of sixpence per pound on salt, and it operates lightly and with advantage; but such a duty would be very burdensome to some of the States. If Congress should, at any time, find it convenient to impose a salt tax, would it not be opposed by the Eastern States? Being themselves incapable of feeling the necessity of the measure, they could only feel its apparent injustice. Would it be wise to give the New England States a power

to defeat this measure, by recalling their Senators who may be engaged for it? I beg the gentleman once more to attend to the distinction between the real and apparent interests of the States. I admit that the aggregate of individuals constitute the government; yet every State is not the government. Sir, in our State Legislatures, a compromise is frequently necessary between the interests of counties; the same must happen in the General Government, between States. In this, the few must yield to the many; or in other words, the particular must be sacrificed to the general interest. If the members of Congress are too dependent on the State Legislatures, they will be eternally forming secret combinations from local views. This is reasoning from the plainest principles. Their interest is interwoven with their dependence, and they will necessarily yield to the impression of their situation. Those who have been in Congress have seen these operations. The first question has been, how will such a measure affect my constituents, and, consequently, how will the part I take affect my reëlection? This consideration may in some degree be proper; but to be dependent from day to day, and to have the idea perpetually present, would be the source of numerous evils. Six years, sir, is a period short enough for a proper degree of dependence.

Let us consider the peculiar state of this body, and see under what impressions they will act. One third of them are to go out at the end of two years, two thirds at four years, and the whole at six years. When one year is elapsed, there are a number who

are to hold their places for one year, others for three, and others for five years. Thus there will not only be a constant and frequent change of members, but there will be some whose office is near the point of expiration, and who, from this circumstance, will have a lively sense of their dependence. The biennial change of members is an excellent invention for increasing the difficulty of combination. Any scheme of usurpation will lose, every two years, a number of its oldest advocates, and their places will be supplied by an equal number of new, unaccommodating, and virtuous men. When two principles are equally important, we ought, if possible, to reconcile them, and sacrifice neither. We think that safety and permanency in this government are completely reconcilable. The State governments will have, from the causes I have described, a sufficient influence over the Senate, without the check for which the gentlemen contend. It has been remarked that there is an inconsistency in our admitting that the equal vote in the Senate was given to secure the rights of the States, and at the same time holding up the idea that their interests should be sacrificed to those of the Union. But the committee certainly perceive the distinction between the rights of a State and its interests. The rights of a State are defined by the Constitution, and cannot be invaded without a violation of it; but the interests of a State have no connection with the Constitution, and may be, in a thousand instances, constitutionally sacrificed. A uniform tax is perfectly constitutional; and yet it may operate oppressively upon certain members of the Union.

The gentlemen are afraid that the State governments will be abolished. But, sir, their existence does not depend upon the laws of the United States. Congress can no more abolish the State governments than they can dissolve the Union. The whole Constitution is repugnant to it, and yet the gentlemen would introduce an additional useless provision against it. It is proper that the influence of the States should prevail to a certain extent. But shall the individual States be the judges how far? Shall an unlimited power be left to determine in their favor? The gentlemen go into the extreme; instead of a wise government, they would form a fantastical Utopia. But, sir, while they give it a plausible, popular shape, they would render it impracticable.

Much has been said about factions. As far as my observation has extended, factions in Congress have arisen from attachment to State prejudices. We are attempting by this Constitution to abolish factions and to unite all parties for the general welfare. That a man should have the power, in private life, of recalling his agent, is proper; because, in the business in which he is engaged, he has no other object but to gain the approbation of his principal. Is this the case with the Senator? Is he simply the agent of the State? No. He is an agent for the Union, and he is bound to perform services necessary to the good of the whole, though his State should condemn them. Sir, in contending for a rotation, the gentlemen carry their zeal beyond all reasonable bounds. I am convinced that no government,

founded on this feeble principle, can operate well; I believe, also, that we shall be singular in this proposal. We have not felt the embarrassments resulting from rotation that other States have; and we hardly know the strength of their objection to it. There is no probability that we shall ever persuade a majority of the States to agree to this amendment. The gentlemen deceive themselves; the amendment would defeat their own design. When a man knows he must quit his station, let his merit be what it may, he will turn his attention chiefly to his own emolument; nay, he will feel temptations, which few other situations furnish, to perpetuate his power by unconstitutional usurpations. Men will pursue their interests. It is as easy to change human nature as to oppose the strong current of selfish passions. A wise legislator will gently divert the channel, and direct it, if possible, to the public good. It has been observed, that it is not possible there should be in a State only two men qualified for Senators. But, sir, the question is not, whether there may be no more than two men; but whether, in certain emergencies, you could find two equal to those whom the amendment would discard. Important negotiations, or other business to which they shall be most competent, may employ them at the moment of their removal. These things often happen. The difficulty of obtaining men capable of conducting the affairs of a nation in dangerous times, is much more serious than the gentlemen imagine. As to corruption, sir, admitting, in the President, a disposition to corrupt, what are the instruments of

bribery? It is said he will have in his disposal a great number of offices. But how many offices are there, for which a man would relinquish senatorial dignity? There may be some in the judicial, and some in other principal departments. But there are few whose respectability can, in any measure, balance that of the office of Senator. Men who have been in the Senate once, and who have a reasonable hope of a reëlection, will not be easily bought by offices. This reasoning shows that a rotation would be productive of many disadvantages; under particular circumstances, it might be extremely inconvenient, if not fatal to the prosperity of our country.—*Elliot's Debates*, vol. ii.

June 27, 1788.—Mr. Hamilton: This is one of those subjects on which objections very naturally arise, and assume the most plausible shape. Its address is to the passions, and its first impressions create a prejudice before cool examination has an opportunity for exertion. It is more easy for the human mind to calculate the evils than the advantages of a measure; and vastly more natural to apprehend the danger than to see the necessity of giving powers to our rulers. Hence, I may justly expect that those who hear me will place less confidence in those arguments which oppose, than in those which favor, their prepossessions.

After all our doubts, our suspicions, and speculations on the subject of government, we must return at last to the important truth, that when we have formed a Constitution upon free principles, when we have given a proper balance to the different

branches of administration, and fixed representation upon pure and equal principles, we may with safety furnish it with all the powers necessary to answer in the most ample manner the purposes of government. The great desiderata are a free representation and mutual checks. When these are obtained, all our apprehensions of the extent of powers are unjust and imaginary. What is the structure of this Constitution? One branch of the Legislature is to be elected by the people—by the same people who chose your State representatives. Its members are to hold their office two years, and then return to their constituents. Here the people govern. Here they act by their immediate representatives. You have also a Senate, constituted by your State Legislatures, by men in whom you place the highest confidence, and forming another representative branch. Then, again, you have an Executive Magistrate, created by a form of election which meets universal admiration. In the form of this government, and in the mode of legislation, you find all the checks which the greatest politicians and the best writers have ever conceived. What more can reasonable men desire? Is there any one branch in which the whole legislative and executive powers are lodged? No. The legislative authority is lodged in three distinct branches, properly balanced. The executive authority is divided between two branches, and the judicial is still reserved for an independent body, who hold their office during good behavior. This organization is so complex, so skilfully contrived, that it is next to impossible that an impolitic

or wicked measure should pass the great scrutiny with success. Now, what do gentlemen mean by coming forward and declaiming against this government? Why do they say we ought to limit its powers, to disable it, and to destroy its capacity of blessing the people? Has philosophy suggested—has experience taught—that such a government ought not to be trusted with everything necessary for the good of society? When you have divided and nicely balanced the departments of government, when you have strongly connected the virtue of your rulers with their interest, when, in short, you have rendered your system as perfect as human forms can be, you must place confidence, you must give power.

We have heard a great deal of the sword and the purse. It is said our liberties are in danger if both are possessed by Congress. Let us see what is the true meaning of this maxim, which has been so much used and so little understood. It is, that you shall not place these powers in either the Legislative or Executive, singly; neither one nor the other shall have both; because this would destroy that division of powers on which political liberty is founded, and would furnish one body with all the means of tyranny. But when the purse is lodged in one branch, and the sword in another, there can be no danger. All governments have possessed these powers. They would be monsters without them, and incapable of exertion. What is your State government? Does not your Legislature command what money it pleases? Does not your Executive execute the laws without re-

straint? These distinctions between the purse and the sword have no application to the system, but only to its separate branches. When we reason about the great interests of a great people, it is high time that we dismiss our prejudices and banish declamation.

In order to induce us to consider the powers given by this Constitution as dangerous, in order to render plausible an attempt to take away the life and spirit of the most important power in government, the gentleman complains that we shall not have a true and safe representation. I have asked him what a safe representation is, and he has given no satisfactory answer. The Assembly of New York has been mentioned as a proper standard. But if we apply this standard to the General Government, our Congress will become a mere mob, exposed to every irregular impulse, and subject to every breeze of faction. Can such a system afford security? Can you have confidence in such a body? The idea of taking the ratio of representation in a small society for the ratio of a great one, is a fallacy which ought to be exposed. It is impossible to ascertain to what point our representation will increase. It may vary from one to two, three, or four hundred. It depends upon the progress of population. Suppose it to rest at two hundred; is not this number sufficient to secure it against corruption? Human nature must be a much more weak and despicable thing than I apprehend it to be, if two hundred of our fellow-citizens can be corrupted in two years. But suppose they are corrupted; can they, in two years, accom-

plish their designs? Can they form a combination, and even lay a foundation for a system of tyranny, in so short a period? It is far from my intention to wound the feelings of any gentleman; but I must, in this most interesting discussion, speak of things as they are, and hold up opinions in the light in which they ought to appear; and I maintain that all that has been said of corruption, of the purse and the sword, and of the danger of giving powers, is not supported by principle or fact; that it is mere verbiage and idle declamation. The true principle of government is this—make the system complete in its structure; give a perfect proportion and balance to its parts, and the powers you give it will never affect your security. The question, then, of the division of powers between the General and State governments, is a question of convenience. It becomes a prudential inquiry, what powers are proper to be reserved to the latter, and this immediately involves another inquiry into the proper objects of the two governments. This is the criterion by which we shall determine the just distribution of powers.

The great leading objects of the Federal Government, in which revenue is concerned, are to maintain domestic peace, and provide for the common defence. In these are comprehended the regulation of commerce—that is, the whole system of foreign intercourse, the support of armies and navies, and of the civil administration. It is useless to go into detail. Every one knows that the objects of the General Government are numerous, extensive, and

important. Every one must acknowledge the necessity of giving powers, in all respects, and in every degree, equal to these objects. This principle assented to, let us inquire what are the objects of the State governments. Have they to provide against foreign invasion? Have they to maintain fleets and armies? Have they any concern in the regulation of commerce, the procuring alliances, or forming treaties of peace? No. Their objects are merely civil and domestic, to support the legislative establishment, and to provide for the administration of the laws. Let any one compare the expense of supporting the civil list in a State, with the expense of providing for the defence of the Union. The difference is almost beyond calculation. The experience of Great Britain will throw some light on this subject. In that kingdom, the ordinary expenses of peace to those of war are as one to fourteen. But there they have a monarch, with his splendid court, and an enormous civil establishment, with which we have nothing in this country to compare. If, in Great Britain, the expenses of war and peace are so disproportioned, how wide will be their disparity in the United States! How infinitely wider between the General Government and that of each individual State! Where ought the great resources to be lodged? Every rational man will give an immediate answer. To what extent shall these resources be possessed? Reason says, As far as possible exigencies can require; that is, without limitation. A constitution cannot set bounds to a nation's wants; it ought not therefore to set bounds to its resources.

Unexpected visitations, long and ruinous wars, may demand all the possible abilities of the country. Shall not our government have power to call these abilities into action? The contingencies of society are not reducible to calculations; they cannot be fixed or bounded, even in imagination. Will you limit the means of your defence when you cannot ascertain the force or extent of the invasion? Even in ordinary wars, a government is frequently obliged to call for supplies, to the temporary oppression of the people.

If we adopt the idea of exclusive revenues, we shall be obliged to fix some distinguishing line which neither government shall overpass. The inconveniences of this measure must appear evident on the slightest examination. The resources appropriated to one may diminish or fail, while those of the other may increase beyond the wants of government. One may be destitute of revenues, while the other shall possess an unnecessary abundance; and the Constitution will be an eternal barrier to a mutual intercourse and relief. In this case will the individual States stand on so good a ground as if the objects of taxation were left free and open to the embrace of both the governments? Possibly, in the advancement of commerce, the imposts may increase to such a degree as to render direct taxation unnecessary; these resources, then, as the Constitution stands, may be occasionally relinquished to the States. But on the gentleman's idea of prescribing exclusive limits, and precluding all reciprocal communication, this would be entirely improper. The

laws of the States must not touch the appropriated resources of the United States whatever may be their wants. Would it not be of more advantage to the States to have a concurrent jurisdiction extending to all the sources of revenue, than to be confined to such a small resource as, on calculation of the objects of the two governments, should appear to be their due proportion? Certainly, you cannot hesitate on this question. The gentleman's plan would also have a further ill effect; it would tend to dissolve the connection and correspondence of the two governments, to estrange them from each other, and to destroy that mutual dependence which forms the essence of union.

A number of arguments have been advanced by an honorable member from New York, which, to every unclouded mind, must carry conviction. He has stated that in sudden emergencies it may be necessary to borrow; and that it is impossible to borrow unless you have funds to pledge for the payment of your debts. Limiting the powers of government to certain resources, is rendering the funds precarious; and obliging the government to ask, instead of empowering it to command, is to destroy all confidence and credit. If the power of taxing is restricted, the consequence is, that on the breaking out of a war you must divert the funds appropriated to the payment of debts, to answer immediate exigencies. Thus, you violate your engagements at the very time you increase the burthen of them. Besides, sound policy condemns the practice of accumulating debts. A government, to act with energy,

should have the possession of all its revenues to answer present purposes. The principle for which I contend is recognized in all its extent by our old Constitution. Congress is authorized to raise troops, to call for supplies without limitation, and to borrow money to any amount. It is true, they must use the form of recommendations and requisitions; but the States are bound, by the solemn ties of honor, of justice, of religion, to comply without reserve.

Mr. Chairman: It has been advanced as a principle, that no government but a despotism can exist in a very extensive country. This is a melancholy consideration indeed. If it were founded on truth, we ought to dismiss the idea of a republican government, even for the State of New York. This idea has been taken from a celebrated writer, who, by being misunderstood, has been the occasion of frequent fallacies in our reasoning on political subjects. But the position has been misapprehended; and its application is entirely false and unwarrantable. It relates only to democracies, where the whole body of the people meet to transact business, and where representation is unknown. Such were a number of ancient and some modern independent cities. Men who read without attention have taken these maxims respecting the extent of country, and, contrary to their proper meaning, have applied them to republics in general. This application is wrong in respect to all representative governments, but especially in relation to a Confederacy of States, in which the supreme Legislature has only general powers and the civil and domestic concerns of the people are

regulated by the laws of the several States. This distinction being kept in view, all the difficulty will vanish, and we may easily conceive that the people of a large country may be represented as truly as those of a small one. An assembly constituted for general purposes may be fully competent to every federal regulation, without being too numerous for deliberate conduct. If the State governments were to be abolished, the question would wear a different face; but this idea is inadmissible. They are absolutely necessary to the system. Their existence must form a leading principle in the most perfect Constitution we could form. I insist that it never can be the interest or desire of the National Legislature to destroy the State governments. It can derive no advantage from such an event; but, on the contrary, would lose an indispensable support, a necessary aid in executing the laws and conveying the influence of government to the doors of the people. The Union is dependent on the will of the State governments for its Chief Magistrate, and for its Senate. The blow aimed at the members must give a fatal wound to the head, and the destruction of the States must be at once a political suicide. Can the National Government be guilty of this madness? What inducements, what temptations, can they have? Will they attach new honors to their station; will they increase the national strength; will they multiply the national resources; will they make themselves more respectable, in the view of foreign nations, or of their fellow-citizens, by robbing the States of their constitutional privileges? But im-

agine for a moment, that a political frenzy should seize the government. Suppose they should make the attempt. Certainly it would be for ever impracticable. This has been sufficiently demonstrated by reason and experience. It has been proved, that the members of republics have been, and ever will be, stronger than the head. Let us attend to one general historical example. In the ancient feudal governments of Europe there was in the first place a monarch; subordinate to him a body of nobles; and subject to these, the vassals or the whole body of the people. The authority of the kings was limited, and that of the barons considerably independent. A great part of the early wars in Europe were contests between the king and his nobility. In these contests, the latter possessed many advantages, derived from their influence, and the immediate command they had over the people, and they generally prevailed. The history of the feudal wars exhibits little more than a series of successful encroachments on the prerogatives of monarchy. Here is one great proof of the superiority which the members in limited governments possess over their head. As long as the barons enjoyed the confidence and attachment of the people, they had the strength of the country on their side, and were irresistible. I may be told that in some instances the barons were overcome. But how did this happen? They took advantage of the depression of the royal authority and the establishment of their own power, to oppress and tyrannize over their vassals. As commerce enlarged, and as wealth and civilization increased, the people began to feel

their own weight and consequence; they grew tired of their oppressions; united their strength with that of the prince; and threw off the yoke of aristocracy. These very instances prove what I contend for. They prove that in whatever direction the popular weight leans, the current of power will flow. Wherever the popular attachments be, there will rest the political superiority. Sir, can it be supposed that the State governments will become the oppressors of the people? Will they forget their affections? Will they combine to destroy the liberties and happiness of their fellow-citizens, for the sole purpose of involving themselves in ruin? God forbid! The idea is shocking! It outrages every feeling of humanity, and every dictate of common-sense!

There are certain social principles in human nature, from which we may draw the most solid conclusions with respect to the conduct of individuals and of communities. We love our families more than our neighbors; we love our neighbors more than our countrymen in general. The human affections, like the solar heat, lose their intensity as they depart from the centre; and become languid in proportion to the expansion of the circle on which they act. On these principles, the attachment of the individual will be first and for ever secured by the State governments. They will be a mutual protection and support. Another source of influence which has already been pointed out, is the various official connections in the States. Gentlemen endeavor to evade the force of this, by saying that these offices will be insignificant. This is by no

means true. The State officers will ever be important, because they are necessary and useful. Their powers are such as are extremely interesting to the people, such as affect their property, their liberty, and life. What is more important than the administration of justice, and the execution of the civil and criminal laws? Can the State governments become insignificant, while they have the power of raising money independently and without control? If they are really useful,—if they are calculated to promote the essential interests of the people, they must have their confidence and support. The States can never lose their powers till the whole people of America are robbed of their liberties. These must go together; they must support each other, or meet one common fate. On the gentleman's principles we may safely trust the State governments, though we have no means of resisting them, but we cannot confide in the National Government, though we have an effectual constitutional guard against every encroachment. This is the essence of their argument, and it is false and fallacious beyond conception.

With regard to the jurisdiction of the two governments, I shall certainly admit that the Constitution ought not to be so formed as to prevent the States providing for their own existence; and I maintain that it is so formed that their power of providing for themselves is sufficiently established. This is conceded by one gentleman, and in the next breath the concession is retracted. He says Congress have but one exclusive right in taxation, that of duties on imports. Certainly, then, their other powers are only

concurrent. But, to take off the force of this obvious conclusion, he immediately says that if the laws of the United States are supreme, those of the States must be subordinate, because there cannot be two supremes. This is curious sophistry. That two supreme powers cannot act together is false. They are inconsistent only when they are aimed at each other, or at one indivisible object. The laws of the United States are supreme as to all their proper constitutional objects. The laws of the States are supreme in the same way. These supreme laws may act on different objects without clashing, or they may operate on different parts of the same common object with perfect harmony. Suppose both governments should lay a tax of a penny on a certain article. Has not each an independent and uncontrollable power to collect its own tax? The meaning of the axiom, that there cannot be two supremes, is simply this: two powers cannot be supreme over each other. This meaning is entirely perverted by the gentlemen. But, it is said, disputes between collectors are to be referred to the federal courts. This is again wandering in the field of conjecture. But suppose the fact certain. Is it not to be presumed that they will express the true meaning of the Constitution and the laws? Will they not be bound to consider the concurrent jurisdiction; to declare that both the taxes shall have equal operation; that both the powers, in that respect, are sovereign and coextensive? If they transgress their duty we are to hope that they will be punished. Sir, we cannot reason from probabilities alone. When we leave common-sense,

and give ourselves up to conjecture, there can be no certainty, no security in our reasonings.

I imagine I have stated to the committee abundant reasons to prove the entire safety of the State governments and of the people. I would go into a more minute consideration of the nature of the concurrent jurisdiction, and of the operation of the laws in relation to revenue; but at present I feel too much indisposed to proceed. I shall, with the leave of the committee, improve another opportunity of expressing to them more fully my ideas on this point. I wish the committee to remember, that the Constitution under examination is framed upon truly republican principles, and that, as it is expressly designed to provide for the common protection and the general welfare of the United States, it must be utterly repugnant to this Constitution to subvert the State governments or oppress the people.

June 28, 1788.—Mr. Hamilton: Mr. Chairman, in the course of these debates it has been suggested that the State of New York has sustained peculiar misfortune from the mode of raising revenue by requisitions. I believe we shall now be able to prove that this State, in the course of the late Revolution, suffered the extremes of distress on account of this delusive system. To establish these facts, I shall beg leave to introduce a series of official papers and resolutions of this State as evidence of the sentiments of the people during the most melancholy periods of war. I shall request the secretary to read these papers, in the order in which I point them out.—*Elliot's Debates*, ii.

could not agree to the mode recommended. But it is well known that Congress had declared that they could not receive the accession of the States upon any other plan than that proposed. In such cases, propositions for altering the plan amounted to a positive rejection. At this time, sir, we were told it was dangerous to grant powers to Congress; did this general argument indicate a disposition to grant the impost in any shape? I should myself have been averse to the granting of very extensive powers; but the impost was justly considered as the only means of supporting the Union. We did not then contemplate a fundamental change in government. From my sense of the gentlemen's integrity, I am bound to believe they are attached to a strong, united government; and yet I find it difficult to draw this conclusion from their conduct or their reasonings.

Sir, with respect to the subject of revenue, which was debated yesterday, it was asserted that, in all matters of taxation, except in the article of imposts, the united and individual States had a concurrent jurisdiction; that the State governments had an independent authority to draw revenues from every source but one. The truth of these positions will appear on a slight investigation. I maintain that the word *supreme* imports no more than this—that the Constitution and laws made in pursuance thereof cannot be controlled or defeated by any other law. The acts of the United States, therefore, will be absolutely obligatory as to all the proper objects and powers of the General Government. The States, as well as individuals, are bound by these

laws; but the laws of Congress are restricted to a certain sphere, and when they depart from this sphere, they are no longer supreme or binding. In the same manner the States have certain independent powers, in which their laws are supreme; for example, in making and executing laws concerning the punishment of certain crimes, such as murder, theft, etc., the States cannot be controlled. With respect to certain other objects, the powers of the two governments are concurrent yet supreme. I instanced yesterday a tax on a specific article. Both might lay the tax; both might collect it without clashing or interference. If the individual should be unable to pay both, the first seizer would hold the property. Here the laws are not in the way of each other; they are independent and supreme. The case is like that of two creditors: each has a distinct demand; the debtor is held equally for the payment of both. Their suits are independent; and if the debtor cannot pay both, he who takes the first step secures the debt. The individual is precisely in the same situation, whether he pays such a sum to one, or to two. No more will be required of him to supply the public wants than he has ability to afford. That the States have an undoubted right to lay taxes in all cases in which they are not prohibited, is a position founded on the obvious and important principle in confederated governments, that whatever is not expressly given to the federal head is reserved to the members. The truth of this principle must strike every intelligent mind. In the first formation of government, by the association of individuals, every

June 28, 1788.—Mr. Hamilton [In reply to Mr. Smith, who had claimed the right to explain the papers produced, which involved Clinton in certain inconsistencies]: We shall make the same reservation. By the indisputable construction of these resolutions, we shall prove that this State was once on the verge of destruction, for want of an energetic government. To this point we shall confine ourselves.—*Elliot's Debates*, ii.

June 28, 1788.—Mr. Hamilton: The honorable gentleman from Ulster¹ has given a turn to the introduction of those papers which was never in our contemplation. He seems to insinuate that they were brought forward with a view of showing an inconsistency in the conduct of some gentlemen; perhaps of himself. Sir, the exhibition of them had a very different object. It was to prove that this State once experienced hardships and distresses to an astonishing degree for want of the assistance of the other States. It was to show the evils we suffered since, as well as before, the establishment of the Confederation, from being compelled to support the burthen of the war; that requisitions have been unable to call forth the resources of the country; that requisitions have been the cause of a principal part of our calamities; that the system is defective and rotten, and ought for ever to be banished from our government. It was necessary—with deference to the honorable gentleman—to bring forward these important proofs of our argument without consulting the feelings of any man. That the human pas-

¹ Gov. Clinton.

sions should flow from one extreme to another, I allow, is natural. Hence the mad project of creating a dictator. But it is equally true that this project was never ripened into a deliberate and extensive design. When I heard of it, it met my instant disapprobation. The honorable gentleman's opposition, too, is known and applauded. But why bring these things into remembrance? Why affect to compare this temporary effusion with the serious sentiments our fellow-citizens entertained of the national weakness? The gentleman has made a declaration of his wishes for a strong Federal Government. I hope this is the wish of all. But why has he not given us his ideas of the nature of this government, which is the object of his wishes? Why does he not describe it? We have proposed a system which we supposed would answer the purposes of strength and safety. The gentleman objects to it without pointing out the grounds on which his objections are founded, or showing us a better form. These general surmises never lead to the discovery of the truth. It is to be desired that the gentleman would explain particularly the errors in this system, and furnish us with their proper remedies. The committee remember that a grant of an impost to the United States for twenty-five years was requested by Congress. Though it was a very small addition of power to the Federal Government, it was opposed in this State without any reasons being offered. The dissent of New York and Rhode Island frustrated a most important measure. The gentleman says he was for granting the impost; yet he acknowledges he

and whose protectors we are. It is unjust to suppose they will be altogether destitute of virtue and prudence; it is unfair to presume that the representatives of the people will be disposed to tyrannize in one government more than in another. If we are convinced that the National Legislature will pursue a system of measures unfavorable to the interests of the people, we ought to have no general government at all. But if we unite, it will be for the accomplishment of great purposes; these demand great resources and great powers. There are certain extensive and uniform objects of revenue which the United States will improve, and to which if possible they will confine themselves. Those objects which are more limited, and in respect to which the circumstances of the State differ, will be reserved for their use; a great variety of articles will be in this last class of objects, to which only the State laws will properly apply. To ascertain this division of objects is the proper business of legislation; it would be absurd to fix it in the Constitution, both because it would be too extensive and intricate, and because alteration of circumstances must render a change of the division indispensable.

Constitutions should consist only of general provisions; the reason is that they must necessarily be permanent, and that they cannot calculate for the possible change of things. I know that the States must have their resources; but I contend that it would be improper to point them out, particularly in the Constitution. Sir, it has been said that a poll tax is a tyrannical tax; but the Legislature of this

State can lay it whenever they please. Does, then, our Constitution authorize tyranny? I am as much opposed to capitation as any man. Yet who can deny that there may exist certain circumstances which will render this tax necessary? In the course of a war it may be necessary to lay hold of every resource; and for a certain period the people may submit to it. But on removal of the danger, or return of peace, the general sense of the community would abolish it. The United Netherlands were obliged, on an emergency, to give up one twentieth of their property to the government. It has been said that it will be impossible to exercise this power of taxation. If it cannot be exercised why be alarmed? But the gentlemen say that the difficulty of executing it with moderation will necessarily drive the government into despotic measures. Here, again, they are in the old track of jealousy and conjecture. Whenever the people feel the hand of despotism, they will not regard forms and parchments. But the gentlemen's premises are as false as their conclusion. No one reason can be offered why the exercise of the power should be impracticable. No one difficulty can be pointed out which will not apply to our State governments. Congress will have every means of knowledge that any Legislature can have. From general observations, and from the revenue systems of the several States, they will derive information as to the most eligible modes of taxation. If a land tax is the object, cannot Congress procure as perfect a valuation as any other assembly? Can they not have all the necessary

officers for assessment and collections? Where is the difficulty? Where is the evil? They never can oppress a particular State by an unequal imposition, because the Constitution has provided a fixed ratio, a uniform rule, by which this must be regulated. The system will be founded upon the most easy and equal principles—to draw as much as possible from direct taxation, to lay the principal burdens on the wealthy, etc. Even ambitious and unscrupulous men will form their system so as to draw forth the resources of the country in the most favorable and gentle methods, because such will ever be the most productive. They never can hope for success by adopting those arbitrary modes which have been used in some of the States. A gentleman yesterday passed many encomiums on the character and operations of the State governments. The question has not been, whether their laws have produced happy or unhappy effects. The character of our Confederation is the subject of our controversy. But the gentleman concludes too hastily. In many of the States, government has not had a salutary operation. Not only Rhode Island, but several others, have been guilty of indiscretions and misconduct—of acts which have produced misfortunes and dishonor. I grant that the government of New York has operated well, and I ascribe it to the influence of those excellent principles in which the proposed Constitution and our own are so congenial.

We are sensible that private credit is much lower in some States than it is in ours. What is the cause of this? Why is it, at the present period, so low,

even in this State? Why is the value of our land depreciated? It is said that there is a scarcity of money in the community. I do not believe this scarcity to be so great as represented. It may not appear; it may be retained by its holders; but nothing more than stability and confidence in the government is requisite to draw it into circulation. It is acknowledged that the General Government has not answered its purposes. Why? We attribute it to the defects of the revenue system. But the gentlemen say, the requisitions have not been obeyed, because the States were impoverished. This is a kind of reasoning that astonishes me. The records of this State—the records of Congress—prove that, during the war, New York had the best reason to complain of non-compliance of the other States. I appeal to the gentleman. Have the States who have suffered least contributed most? No, sir; the fact is directly the reverse. This consideration is sufficient entirely to refute the gentleman's reasoning. Requisitions will ever be attended with the same effects. This depends on principles of human nature that are as infallible as any mathematical calculations. States will contribute, or not, according to their circumstances or interests. They will all be inclined to throw off their burdens of government upon their neighbors. These positions have been so fully illustrated and proved in former stages of this debate, that nothing need be added. Unanswerable experience—stubborn facts—have supported and fixed them. Sir, to what situation is our Congress now reduced? It is notorious that

with the most difficulty they maintain their ordinary officers, and support the mere form of a Federal government. How do we stand with respect to foreign nations? It is a fact that should strike us with shame, that we are obliged to borrow money in order to pay the interest of our debts. It is a fact that these debts are every day accumulating by compound interest. This, sir, will one day endanger the peace of our country, and expose us to vicissitudes the most alarming. Such is the character of requisitions—such the melancholy, dangerous, condition to which they have reduced us. Now, sir, after this full and fair experiment, with what countenance do gentlemen come forward to recommend the ruinous principle, and make it the basis of a new government? Why do they affect to cherish this political demon, and present it once more to our embraces? The gentleman observed, that we cannot, even in a single State, collect the whole of a tax; some counties will necessarily be deficient. In the same manner, says he, some States will be delinquent. If this reasoning were just, I should expect to see the States pay, like the counties, in proportion to their ability, which is not the fact. I shall proceed now more particularly to the proposition before the committee. This clearly admits that the unlimited power of taxation, which I have been contending for, is proper. It declares that, after the States have refused to comply with the requisitions, the General Government may enforce its demands. While the gentleman's proposition and principle admit this in its fullest latitude, the whole course of the States is

against it. The mode they point out would involve many inconveniences against which they would wish to guard. Suppose the gentleman's scheme should be adopted; would not all the resources of the country be equally in the power of Congress? The States can have but one opportunity of refusal. After having passed through the empty ceremony of a requisition, the General Government can enforce all its demands without limitation or resistance. The States will either comply or they will not. If they comply, they are bound to collect the whole of the tax from the citizens. The people must pay it. What, then, will be the disadvantage of its being levied and collected by Congress, in the first instance? It has been proved, as far as probabilities can go, that the Federal Government will, in general, take the laws of the several States as its rule, and pursue those measures to which the people are most accustomed. But if the States do not comply, what is the consequence? If the power of a compulsion be a misfortune to the State, they must now suffer it without opposition or complaint. I shall show, too, that they must feel it in an aggravated degree. It may frequently happen that, though the States formally comply with the requisitions, the avails will not be fully realized by Congress; the States may be dilatory in the collection and payment, and may form excuses for not paying the whole. There may also be partial compliances, which will subject the Union to inconveniences. Congress, therefore, in laying the tax, will calculate for these losses and inconveniences. They will

make allowances for the delays and delinquencies of the States, and apportion their burdens accordingly. They will be induced to demand more than their actual wants. In these circumstances the requisitions will be made upon calculations in some measure arbitrary. Upon the constitutional plan the only inquiry will be: How much is actually wanted? and how much can the object bear, or the people pay? On the gentleman's scheme it will be: What will be the probable deficiencies of the States? for we must increase our demands in proportion, whatever the public wants may be, or whatever may be the abilities of the people. Now, suppose the requisition is totally rejected; it must be levied upon the citizens without reserve. This will be like inflicting a penalty upon the States. It will place them in the light of criminals. Will they suffer this? Will Congress presume so far? If the States solemnly declare they will not comply, does not this imply a determination not to permit the exercise of the coercive power? The gentlemen cannot escape the dilemma into which their own reasoning leads them. If the States comply, the people must be taxed; if they do not comply, the people must equally be taxed. The burden in either case will be the same—the difficulty of collecting the same. Sir, if these operations are merely harmless and indifferent, why play the ridiculous farce? If they are inconvenient, why subject us to their evils? It is infinitely more eligible to lay a tax originally, which will have uniform effects throughout the Union, which will operate equally and silently. The United States will

then be able to ascertain their resources, and to act with vigor and decision. All hostility between the governments will be prevented. The people will contribute regularly and gradually for the support of the government, and all odious, retrospective inquiries will be precluded. But the ill effects of the gentleman's plan do not terminate here. Our own State will suffer peculiar disadvantages from the measure. One provision in the amendment is, that no direct taxes shall be laid till after the impost and excise shall be found insufficient for public exigencies; and that no excise shall be laid on articles of the growth or manufacture of the United States. Sir, the favorable maritime situation of this State, and our large and valuable tracts of unsettled land, will ever lead us to commerce and agriculture as our proper objects. Unconfined, and tempted by the prospect of easy subsistence and independence, our citizens, as the country populates, will retreat back, and cultivate the western parts of our State. Our population, though extensive, will never be crowded; and consequently we shall remain an importing and agricultural State. Now, what will be the operation of the proposed plan? The General Government, restrained by the Constitution from a free application to other resources, will push imposts to an extreme. Will excessive impositions on our commerce be favorable to the policy of this State? Will they not directly oppose our interests? Similar will be the operation of the other clause of the amendment, relative to excise. Our neighbors, not possessed of our advantages for commerce and agriculture, will

become manufacturers; their property will, in a great measure, be vested in the commodities of their own productions, but a small proportion will be in trade or in lands. Thus, on the gentleman's scheme, they will be almost free from burthens, while we shall be loaded with them. Does not the partiality of this strike every one? Can gentlemen who are laboring for the interest of their State, seriously bring forward such propositions? It is the interest of New York that those articles should be taxed, in the production of which the other States exceed us. If we are not a manufacturing people, excises on manufactures will ever be for our advantage. This position is indisputable. Sir, I agree that it is not good policy to lay excises to any considerable amount, while our manufactures are in their infancy; but are they always to be so? In some of the States they already begin to make considerable progress. In Connecticut, such encouragement is given as will soon distinguish that State. Even at the present period, there is one article from which a revenue may very properly be drawn: I speak of ardent spirits. New England manufactures more than a hundred gallons to our one; consequently, an excise on spirits at the still-head would make those States contribute in a vastly greater proportion than ourselves. In every view, excises on domestic manufacture would benefit New York. But the gentleman would defeat the advantages of our situation, by drawing upon us all the burdens of government. The nature of our Union requires that we should give up our State impost. The amend-

ment would forfeit every other advantage. This part of the Constitution should not be touched. The excises were designed as a recompense to the importing States for relinquishing their imposts. Why, then, should we reject the benefits conferred upon us? Why should we run blindly against our own interest?

Sir, I shall no further enlarge on this argument; my exertions have already exhausted me. I have persevered from an anxious desire to give the committee the most complete conception of this subject. I fear, however, that I have not been so successful as to bestow upon it that full and clear light of which it is susceptible. I shall conclude with a few remarks by way of an apology. I am apprehensive, sir, that, in the warmth of my feelings, I may have uttered expressions which were too vehement. If such has been my language it was from the habit of using strong phrases to express my ideas; and, above all, from the interesting nature of the subject. I have ever condemned those cold, unfeeling hearts, which no object can animate. I condemn those indifferent mortals, who either never form opinions, or never make them known. I confess, sir, that on no subject has my breast been filled with stronger emotions or more anxious concern. If any thing has escaped me, which may be construed into a personal reflection, I beg the gentlemen, once for all, to be assured that I have no design to wound the feelings of any one who is opposed to me. While I am making these observations, I cannot but take notice of some expressions which have fallen in the course

of the debate. It has been said that ingenious men may say ingenious things, and that those who are interested in raising the few upon the ruins of the many, may give to every cause an appearance of justice. I know not whether these insinuations allude to the characters of any who are present, or to any of the reasonings of the House. I presume that the gentlemen would not ungenerously impute such motives to those who differ from themselves. I declare I know not any set of men who are to derive peculiar advantages from this Constitution. Were any permanent honors or emoluments to be secured to the families of those who have been active in this cause, there might be some grounds for suspicion. But what reasonable man, for the precarious enjoyment of rank and power, would establish a system which would reduce his nearest friends and his posterity to slavery and ruin? If the gentlemen reckon me amongst the obnoxious few, if they imagine that I contemplate with ambitious eye the immediate honors of the government, yet let them consider that I have my friends, my family, my children, to whom ties of nature and of habit have attached me. If, to-day, I am among the favored few, my children, to-morrow, may be among the oppressed; these dear pledges of my patriotism may, at a future day, be suffering the severe distresses to which my ambition has reduced them. The changes in the human condition are uncertain and frequent; many, on whom fortune has bestowed her favors, may trace their family to a more unprosperous station; and many, who are now in obscurity, may look back

upon the affluence and exalted rank of their ancestors. But I will no longer trespass on your indulgence. I have troubled the committee with these observations, to show that it cannot be the wish of any reasonable man to establish a government unfriendly to the liberties of the people. Gentlemen ought not, then, to presume that the advocates of this Constitution are influenced by ambitious views. The suspicion, sir, is unjust; the charge is uncharitable.¹—*Elliot's Debates*, ii.

BRIEF OF ARGUMENT ON THE CONSTITUTION OF THE
UNITED STATES

1788

A I. A republic, a word used in various senses.

Has been applied to aristocracies and monarchies.

1. To Rome, under the kings.
 2. To Sparta, though a Senate for life.
 3. To Carthage, though the same.
 4. To United Netherlands, though Stadtholder, hereditary nobles.
 5. To Poland, though aristocracy and monarchy.
 6. To Great Britain, though monarchy, etc.
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¹ In the edition of 1851, portions only are given of Hamilton's speeches in the New York Convention. The gaps have been filled here from *Elliot's Debates*, and the complete series is given in exact accordance with the official report.

II. Again, great confusion about the words democracy, aristocracy, monarchy.

1. *a.* Democracy defined by some, Rousseau, etc., a government exercised by the collective body of the people.
- b.* Delegation of their power has been made the criterion of aristocracy.
2. Aristocracy has been used to designate governments.
 - a.* Where an independent few possessed sovereignty.
 - b.* Where the representatives of the people possessed it.
3. Monarchy, where sovereignty in the hands of a single man.

☞ General idea—Independent in his situation; in any other sense would apply to State of New York.

III. Democracy in my sense, where the whole power of the government in the people.

1. Whether exercised by themselves, or
2. By their representatives, chosen by them either mediately or immediately and legally accountable to them.

IV. Aristocracy, where whole sovereignty is permanently in the hands of a few for life or hereditary.

V. Monarchy, where the whole sovereignty is in the hands of one man for life or hereditary.

VI. Mixed government, where these three principles unite.

B I. *Consequence*, the proposed government a *representative democracy*.

1. House of Representatives directly chosen by the people for two years.
2. Senate indirectly chosen by them for six years.

3. President indirectly chosen by them for four years.

☞ Thus legislative and executive representatives of the people.

4. Judicial power, representatives of the people indirectly chosen during good behavior.
5. All officers indirect choice of the people.

☞ Constitution revocable and alterable by the people.

- C I. This representative democracy as far as is consistent with its genius has all the features of good government. These features are:

1. An immediate and operative representation of the people, which is found in the House of Representatives.
2. Stability and wisdom, which is found in the Senate.
3. A vigorous executive, which is found in the President.
4. An independent judicial, which is found in the Supreme Court, etc.

☞ A separation of the essential powers of government. Ascertain the sense of the maxim: One department must not wholly possess the powers of another.

= Montesquieu.

= British Government.

- II. Departments of power must be separated, yet so as to check each other.

1. Legislative.
2. Legislative executive.
3. Judicial legislative.
4. Legislative judicial.

☞ All this done in the proposed Constitution.

1. Legislative in the Congress, yet checked by negative of the executive.

2. Executive in the President, yet checked by impeachment of Congress.
 3. Judicial check upon legislative, or interpretation of laws.
 4. And checked by legislative through impeachment.
- D I. Can such a government apply to so extensive a territory?
- II. Despotic government for a large country to be examined.

Review

- I. Full House of Representatives chosen every second year, etc.
- II. Senate for six years by Legislatures.
Rotation every two years.
Probable increase.
- III. Executive manner of appointment.
Compensation.
Negotiation of treaties.
Nomination of officers.
- IV. Judicial power. Constitution of judges.
Extent of powers.
Inferior courts.
Trial by jury.
Criminal cases.

Powers

- I. To provide revenue for the common defence.
- II. To regulate commerce.
- III. To declare war.
- IV. To raise and support armies.
- V. Admission of new States.
- VI. Disposal of property.

Miscellaneous Advantages

- I. To prohibit importation of slaves prior to 1808.
- II. Account to be rendered of expenditure of moneys.
- III. No State shall emit bills of credit under ex-post-facto law, or law impairing the obligation of contracts, or grant title of nobility.
- IV. Definition of treason.
- V. Guaranty of republican governments.

DRAFT OF PROPOSED RATIFICATION OF THE CONSTITUTION OF THE UNITED STATES, WITH SPECIFIED AMENDMENTS.¹

We, the delegates of the people of the State of New York in Convention assembled, having maturely considered the Constitution for the United States, agreed to on the 17th day of September, in the year 1787, at Philadelphia, in the commonwealth of Pennsylvania, by the Convention then and there convened, and having also seriously and deliberately considered the present situation of the United States, and being convinced that it is advisable to adopt the said Constitution, do declare and make known, in the name and behalf of the people aforesaid, that the powers granted in and by the said Constitution, being derived from the people of the United States, may be resumed by them whenever they shall judge it necessary to their happiness; that

¹ This draft by Hamilton was not accepted, but a brief circular-letter, which was much more unfavorable to the new scheme, was adopted and published.

every power not granted thereby remains either to them or their respective State governments, to whom they may have delegated the same; that therefore no right of any kind, either of the people of the respective States or of the said governments, can be cancelled, abridged, restrained, or modified by Congress, or by any officer or department of the United States, except in conformity to the powers given by the said Constitution, that among other essential rights, the liberty of conscience and of the press cannot be cancelled or abridged by any authority of the United States.

With these impressions, with a firm reliance on the blessing of Providence upon a government framed under circumstances which afford a new and instructive example of wisdom and moderation to mankind; with an entire conviction that it will be more prudent to rely, for whatever amendments may be desirable in the said Constitution, on the mode therein prescribed, than either to embarrass the Union or hazard dissensions in any part of the community by pursuing a different course, and with a full confidence that the amendments which shall have been proposed will receive an early and mature consideration, and that such of them as may in any degree tend to the real security and permanent advantage of the people, will be adopted: We, the said delegates, in the name and behalf of the PEOPLE of this State, Do, by these presents, assent to and RATIFY the Constitution aforesaid, hereby announcing to all those whom it may concern, that the said Constitution is binding upon the said

people according to an authentic copy hereunto annexed.

And to the end that the sense of the people of this State may be manifested touching certain parts of the said Constitution, concerning which doubts have been raised, we, the delegates aforesaid, in the name and behalf of the people aforesaid, do, by these presents, further declare and make known that, according to the true intent and meaning of the said Constitution, Congress ought not to interpose in the regulation of the times, places, and manner of holding elections for Senators and Representatives, except only in such cases in which the Legislatures of the respective States, or any of them, may neglect, refuse, or be unable to make provision, or for the purpose of appointing a uniform time for the election of Representatives; and that the Legislature of any State may, at its discretion, lay out such State into convenient districts for the election of Representatives, and may apportion its Representatives to and among such districts. And also that, except as to duties on imports and exports—in the Post-office, and duties of tonnage, the United States and the States respectively have concurrent and co-equal authority to lay and collect all taxes whatever; and therefore that neither of them can, in any wise, contravene, control, or annul the operation or execution of any law of the other for the imposition or collection of any tax, except as aforesaid. And also that there must be once in every four years an election of the President and Vice-President, so that no other officer who may be appointed by Congress to act as

President in case of the removal, death, resignation, or inability of the President and Vice-President, can in any case continue to act beyond the termination of the period for which the last President and Vice-President were elected; and also that the judicial power of the United States, in cases in which a State may be a party, does not extend to criminal prosecutions, or to any suit by private persons against a State; and that the appellate jurisdiction of the Supreme Court cannot authorize a second trial of any suit in any criminal case whatever, or a second trial of any suit determinable in the course of the common law by a jury, and which shall have been so determined in the original cause. And lastly, that the process of presentment and indictment by a grand jury ought to be observed in every prosecution for any crime, as a necessary preliminary to the trial thereof.

And in order that the foregoing declarations and Constitution may be recognized and inviolably observed in the administration of the government of the United States, this Convention, in the name and behalf of the people aforesaid, do hereby enjoin upon the Senators and Representatives of this State in the Congress to procure, as soon as may be after the meeting of Congress, a declaratory act in conformity to these presents.

We would also agree to recommend the following amendments to the Constitution:

I. That there shall be one Representative for every 30,000, according to the enumeration or census mentioned in the Constitution, until the whole number of Representatives amounts to two hundred;

after which that number shall be continued or increased, but not diminished, as Congress shall direct, and according to such ratio as Congress shall fix in conformity to the rule prescribed for the apportionment of Representatives and direct taxes.

II. That the court for the trial of impeachments shall consist of the Senate, the judges of the Supreme Court of the United States, and the first or senior judge for the time being, of the highest court of general and ordinary common-law jurisdiction in each State. That Congress shall, by standing laws, designate the courts in the respective States answering this description, and in States having no courts exactly answering this description, shall designate some other court, preferring such, if any there be, whose judge or judges may hold their places during good behavior,—provided that not more than one judge shall come from one State. That Congress be authorized to pass laws for compensating the said judges, and for compelling their attendance, and that a majority at least of the said judges shall be requisite to constituting said court. That no person impeached shall sit as a member thereof. That each member shall, previous to the entering upon any trial, take an oath or affirmation honestly and impartially to hear and determine the cause; and that ——— of the members present shall be necessary for a conviction.

III. That the authority given to the Executives of the States to fill the vacancies of Senators be abolished; and that such vacancies be filled by the respective Legislatures.

IV. That the compensation for the Senators and Representatives be ascertained by standing laws; and that no alteration of the existing rate of compensation shall operate for the benefit of the Representatives until after a subsequent election shall have been had.

V. That no appropriation of money in time of peace for the support of an army shall be by less than two-thirds of the Representatives and Senators present.

VI. That the Executive shall not take the actual command in the field of an army without the previous direction of Congress.

VII. That each State shall have power to provide for organizing, arming, and disciplining its militia, when no provision for that purpose shall have been made by Congress, and until such provision shall have been made that the militia shall never be subjected to martial law, but in time of war, rebellion, or insurrection.

VIII. That the Journals of Congress shall be published at least once a year, with exception of such parts relating to treaties or military operations as in the judgment of either House shall require secrecy.

IX. That the judicial power of the United States shall extend to no controversy respecting land, unless it relate to claims of territory or jurisdiction between States, or to claims of land between individuals, or between States and individuals, under grants of different States.

X. That no judge of the Supreme Court shall hold any other office under the United States or any of them.

ADDRESSES



ADDRESSES¹

NEW YORK, February 18, 1789.

*To the Supervisors of the City of Albany, in the
County of Albany.*

GENTLEMEN:—The last Tuesday of April next being the day appointed by law for the election of a governor for the ensuing three years, the great importance of making a wise choice in the present peculiar situation of our local and national affairs

¹ The Constitution having been ratified by the necessary number of States, the Federalists everywhere made the utmost efforts to elect Senators and Congressmen who were favorable to the new scheme. Nowhere was their task more difficult than in New York. The contest in the Convention had been very severe, and the ratification had been carried only by sheer force of argument and outside pressure. The head and front of the opposition was Governor Clinton, a man with a very great personal following, of strong will and much ability. Hamilton threw himself into the conflict with his usual zeal. He travelled through the State, and published the address given above; and, not content with this, he sought to break down Clinton and defeat his re-election. With this object he published a second address and the letters of "H. G.," which follow, and which are a sustained attack upon the Governor's whole course and attitude. Clinton was re-elected by a majority of less than 500, but his power was fatally crippled, and the opposition was demoralized as Hamilton desired. The Federalists on their side obtained four out of the six Congressmen, and subsequently the two Senators. These addresses and the letters of "H. G." are not of course constitutional arguments, but they are an important part of the work which Hamilton did for the Constitution, and complete his labors for a new system of national government, which began under the tents of the revolutionary army, and ended with the inauguration of Washington.

appears to have made a deep impression on the minds of considerate men in the different parts of the State.

On the eleventh instant, a numerous meeting of respectable inhabitants was held in this city to consult on what was best to be done in relation to that object, and we have been advised that similar meetings have been held in some other counties.

The meeting in this city were unanimous in the result of their deliberations, and we, the subscribers, were appointed a committee to correspond with our fellow-citizens in the other counties upon the subject, in order that a mutual communication of sentiments might promote mutual confidence, and a happy concert in such a choice, as a dispassionate attention to the good of the community, divested of all particular attachments or dislikes, should be found to recommend.

The *people* of this State are *the sovereigns* of it, and being now called upon by their constitution to appoint a Chief Magistrate, it cannot but be useful that so high an act of sovereignty should be preceded by an interchange of ideas and sentiments, especially at so critical a juncture as the present; for at no period can it be more necessary to take care that our affairs be committed to the management of disinterested, discreet, and temperate rulers, than at a period when the heats of party are to be assuaged, discordant opinions reconciled, and all the inconveniences attending changes in national government provided against.

As this State is only part of a larger community,

as its prosperity must therefore materially depend on its maintaining its due weight in the national scale, on its being charged with only its due proportion of public burdens, and on its deriving from the General Government its due share of favor and protection, it is evidently of the greatest moment that the people should be *united* and circumspect, and their rulers should be men who will neither be seduced by interest nor impelled by passion into designs or measures which may justly forfeit the confidence or friendship of the other members of the great national society.

On this ground it is highly necessary that the Chief Magistrate of the State should be free from all temptation wantonly to perplex or embarrass the National Government,—whether that temptation should arise from a preference of partial confederacies, from a spirit of competition with the national rulers for personal pre-eminence, from an impatience of the restraints of national authority, from the fear of a diminution of power and emoluments, from resentment or mortification proceeding from disappointment, or from any other cause whatsoever. For all attempts to perplex and embarrass, would not only tend to prevent the government from doing the good they may meditate, but would also expose this State to the distrust and ill-will of the others.

It is also of no inconsiderable consequence, in the same view, that the governor of the State should be of a disposition to pay those decent attentions, and practise that becoming republican hospitality, which the persons who administer the National Government,

and distinguished strangers in public character, whom the affairs of the nation call to reside in our capital, have a right to expect. The dignity as well as the interests of the State require this, and ample provision is constantly made for it by the liberal salary and perquisites annexed to the office. A contrary conduct cannot fail to create disgust and contempt; and to draw not merely upon the magistrate himself, but, in some measure, upon the State, imputations not a little mortifying to a people long celebrated for their hospitality, and who uniformly enable their executive representative to maintain their character in this respect. For it can never be presumed to be their intention to attach such considerable emoluments to the office *merely for the sake of enriching its possessor.*¹

Many considerations might be detailed to show the important light in which our political annexation as a member of the Union ought to be viewed, and to demonstrate how much the regulation of our trade, the repossession of our frontier posts, and various other important interests may be affected by our having much or little influence in the Confederacy. But this would lead to a discussion too long for the occasion, and, to reflecting men, would be unnecessary. Hence, however, this inference is to be drawn, that we cannot be too careful of keeping power and opportunity from those whom we have reason to believe may be predisposed to employ them in a manner calculated to alienate the friendship and confidence of our sister States.

¹ In allusion to Clinton's wealth and parsimony.

As to the domestic situation of the State, it appeared to the meeting to be such as to admonish us to use great circumspection in the choice of a Governor. The council of appointment is so powerful an engine in the hands of a governor, for perpetuating himself in office, that his conduct in it cannot be regarded with too watchful an eye; because it is evident, that an artful man may, in the course of ten or twelve years, so fasten himself to the office, by means of this engine, as to become too indifferent to the opinion and control of the people, and perhaps immovable by the efforts of the virtuous and independent. Extremely free from blame, therefore, and from all *suspicion* of undue attachment to place or to profit, and very satisfactory to the *community* at large, ought to be the administration of a governor, to render it prudent in the people to leave so powerful an engine in his hands for a long succession of years.

As, on the one hand, in this council of appointment, the governor will, for the most part, have a preponderating influence, so, on the other, that influence will generally be exerted according to the views and wishes of the man. If he wishes to promote the public good, and to acquire fame and popularity by acting as the governor of the State, and not as the governor of a party, then merit in every situation will be cherished and employed. If, on the contrary, offices are to be the price of obedience, and men are to enjoy his favor no longer than they consent to be his tools, merit will be neglected, and the State must suffer by having the

public business, in too many instances, intrusted to improper hands.

In addition to the parties which have too long existed in the State, on personal and particular grounds, it must be lamented that the new Constitution for the government of the United States has divided the community on a more extensive scale, and has occasioned animosities which have not yet ceased to operate. On that great question very honest men took opposite sides; and those who were not honest assisted in "troubling the waters."

But certainly it is now high time that those parties should subside; and should, for the sake of the public good, unite; agreeing in these two points, that all should join in supporting the Constitution established by the people of the United States, and that all should join in obtaining a reconsideration of the parts which have been the subject of objection, in order that every reasonable and safe endeavor may be used to give universal satisfaction, to remove the apprehensions entertained by the honest opponents of the system, and to provide, if upon cool and deliberate examination any be found requisite, such additional securities to the liberties of the people as shall be compatible with the salutary and necessary energy of an efficient National Government. To such a compromise, it is essential that the unhappy divisions which now exist among us should be buried. And to this end it is equally essential that our first magistrate should be a man of moderation, sincerely disposed to heal, not to widen, those divisions; to promote conciliation, not

dissension; to allay, not to excite, the fermentations of party spirit; and to restore that cordial good-will and mutual confidence which ought to exist among a people bound to each other by all the ties which connect members of the same society.

It is seriously to be deplored that dissension reigns in the most important departments of the State, and as dissensions among brethren, so destructive to the happiness of families, are often appeased by parental influence and prudence, so there is good reason to flatter ourselves that a Chief Magistrate, sincerely desirous of re-establishing concord, may without much difficulty effect it, especially if he should owe his exaltation to the votes of both the contending parties.

Reflections of this nature had their full weight in forming the opinion of the meeting which appointed us, not only as to the necessity of choosing some other person than the present governor, but as to the man whom it would be desirable to substitute.

As we are aware that the warm partisans of men in office are apt to represent every attempt to change them as a species of personal injury, we think it necessary to remark in this place, that at the expiration of his three years the Constitution will return the present Chief Magistrate to the mass of the people. The question is not, therefore, whether he shall be put out, but whether he shall be put in. As no man has a right to office, or re-election, in virtue of long possession, no man, of course, can have a right to complain if the people do not think it proper to continue *to be governed by him*.

In the consideration of the character most proper to be held up at the ensuing election, some difficulties occurred. Our fellow-citizens in some parts of the State had proposed Judge Yates, others had been advocates of the Lieutenant-Governor, and others for Chief-Justice Morris. It is well known that the inhabitants of this city are, with few exceptions, strongly attached to the New Constitution, and have been remarkably unanimous and active in its support. It is also well known that Lieutenant-Governor Cortland, and Chief-Justice Morris, whom we respect and esteem, were zealous advocates for the same cause. Had it been agreed to support either of them for the office of governor, there would have been reason to fear that the measure would have been imputed to party, and not to a desire of relieving our country from the evils they experience from the heats of party. It appeared, therefore, most advisable to elect some man of the opposite party in whose integrity, patriotism, and temper confidence might be placed, however little his political opinions on the question lately agitated might be approved by those who were assembled upon the occasion.

Among the persons of this description, there were circumstances which led to a decision in favor of Judge Yates. And we flatter ourselves that this decision, to those who are acquainted with the situation of the State, will be most likely to appear well founded. It is certain that as a man and a judge he is generally esteemed. And though his opposition to the New Constitution was such as his friends cannot but disapprove, yet, since the period of its adop-

tion, his conduct has been tempered with a degree of moderation, and regard to peace and decorum, which entitle him to credit; and seem to point him out as a man likely to compose the differences of the State, and to unite its citizens in the harmonious pursuit of their common and genuine interest.

Of this at least we feel confident, that he has no personal revenge to gratify, no opponents to oppress, no partisans to provide for, nor any promises for personal purposes to be performed at the public expense. On the contrary, we trust he will be found to be a man who looks with an equal eye on his fellow-citizens, and who will be more ambitious of leaving a good name than a good estate to his posterity.

For these, and for other reasons, which considerations of decorum induce us to pass over in silence, the meeting was unanimously of opinion that it would be advisable to try Judge Yates as our governor for the next three years. They were persuaded that the State could not lose by the experiment, and entertained strong hopes that much good would redound to it from his administration.

We shall be happy to find that the same reasons, and that regard for the public weal, which has at all times distinguished their conduct, may induce the Lieutenant-Governor and Chief-Justice Morris to forbear a competition which can evidently, under the existing circumstances, answer no *good* purpose; and that they, and their particular friends, do generously join with their fellow-citizens of every place and party, in promoting the election of Mr. Yates, as the only candidate likely to succeed, whose

character affords a prospect that he will, under Providence, be instrumental in preserving and advancing the dignity and interests of the people, and in restoring to them the blessings of union and cordiality at home and respect abroad.

It will give us great pleasure to learn the sentiments of your county on this important subject, and to know that they coincide with those which we entertain, and which we have every reason to believe, correspond with the general sense of the people of this city and county. We acknowledge that we feel a very serious anxiety for the issue; and that, from the most mature reflection, we regard a change in the person of the Chief Magistrate, as a matter of high importance to the tranquillity and prosperity of the State. Nor can we forbear, as brethren and fellow-citizens, earnestly to exhort the inhabitants of your county to weigh well the importance of the opportunity which the approaching election presents to them, and to resolve to exercise their right of suffrage, in that unbiassed and independent manner, which becomes a free and enlightened people. We shall only add, that it is manifestly essential to ensure success to the attempt, that all those who concur in the expediency of a change should zealously unite in the support of the same candidate.

I have the honor to be,

Gentlemen,

Your obedient servant,

By order of the committee,

ALEXANDER HAMILTON,

Chairman.

*To the Independent and Patriotic Electors of the State
of New York.*¹

In our last address we mentioned to you our intention of offering some remarks upon that which has been lately published by the committee appointed to promote the re-election of our present Governor. This we shall now do; and we flatter ourselves that what we shall say will meet with your candid and serious attention. Respect for ourselves, as well as for you, will prevent our imitating the spirit of invective and uncandid speculation which abounds in that performance. Acting, as we trust we do, from reason, not from passion, we shall continue to address ourselves to the reason, not to the passions, of our fellow-citizens.

The writers of the address in question set out with describing to us the long services of the present Governor—his meritorious administration during the late war, his good conduct in preserving peace and order within the southern district, after its evacuation by the British forces.

We feel no inclination to detract from the merit of the Governor's services during the war, nor shall we examine whether they have been overrated or not. We are ready to acknowledge that they were

¹ This address, which has never before been included in any edition of Hamilton's works, I owe to the kindness of Mr. Henry A. Homes, State Librarian of New York. The Clintonian Committee published an address on March 9, 1789, and this, as will be seen from the opening sentences, is in answer to the attacks of the Governor's friends. This second address, unknown until discovered by Mr. Homes, is reprinted from a probably unique copy of the original broadside or pamphlet in the State Library at Albany.

considerable, and that they entitled him to the esteem of his country.

With regard to the credit given to him for the order preserved in this part of the State after the peace, we shall only observe that at the most critical period, the management of affairs was in the hands of the council appointed for the temporary government of the southern district, in which the Governor had no greater agency than any other individual member.

But, admitting all that can be asked in either of these respects, it surely will not follow that we ought therefore to consent to be perpetually governed by the same man, however exceptionable his subsequent conduct may have been. If he has departed from the principles by which he may have been once actuated; if he has quitted the pursuit of the public good for that of a selfish and interested policy; if he has betrayed a stronger attachment to his own power, influence, and advantage than to the dignity, respectability, and prosperity of the people; if, instead of being the impartial head of the State, he has become the zealous head of a party in it; if, instead of acting as the appeaser and calmer, he has in any instance acted as the fomenter, of dissension; if he has at any time contributed to sacrificing the interests of the State by encouraging the obstinacy and intemperance of party conflicts;—in either of these suppositions, the merit of his early administration will be a very insufficient recommendation to the future choice of the community.

How far imputations of this kind may be applic-

able to the conduct of the Governor for some years past, we forbear particularly to discuss. It is certain, however, that a very large proportion of the community are now, on different accounts, greatly dissatisfied with his administration, and that many more entertain serious doubts and apprehensions. The presumption is, that this has not happened without cause. Moderate and discreet men of all parties will at least agree that the existence of such a state of things, from whatever source it may proceed, is a *real evil* which calls for some effectual remedy. When discontents with the head of the State have taken possession of a large part of the people, and have been produced by causes which render them likely to last, they form in republican governments a powerful reason for a change, as perhaps the only means of securing or re-establishing confidence in the government. When those discontents are immediately connected with the party divisions which exist in the State, such a change will generally be found essential to the restoration of harmony among the citizens (a blessing which cannot be too highly prized nor too anxiously promoted).

That the spirit of party has attained an alarming and pernicious height in the State, must be apparent to all dispassionate observers. It has been conclusively witnessed in the last session of the Legislature. Which of the parties was right, which wrong, would be an endless discussion. But it cannot admit of a doubt that the interests of the State have suffered in the contest;¹ and there is too much

¹ Our representatives in Congress are not yet ascertained, and we

probability that they will continue to suffer from the same spirit, until there is at the head of the State a man who enjoys the good-will of both parties, and is disposed to temper and heal their mutual irritations.

On the subject of the parties which exist in the State, much is said in the address under consideration. Some of the observations contained in it are just, but we do not conceive apply to the case; others of them appear to us altogether fallacious.

It is just, for instance, that difference of opinion, on a great political question occasionally arising in a community, does not constitute what is understood by *spirit of party*. Men, in such cases, ought to take their sides according to their convictions, though they should be cautious not to suffer their zeal to hurry them into irrational extremes.

But when the Governor is objected to as the head of a party, we presume it is not on account of the side he took in the question concerning the new Constitution. It is true, indeed, that the friends of that Constitution are of opinion that circumstances have attended the Governor's conduct in relation to it, *before* it appeared, *after* it appeared, and before its adoption, and even *since* its adoption, which savor of prejudice and intemperance, and subject him to suspicions derogatory to his prudence and patriotism. But the objection to him as the head of a party reaches much further back than the new Constitution. Discerning men, soon after the peace, perceived that he had formed a close connection have no senators appointed.

with a particular set of characters, in whose public and private views he was continually embarked.

It is asked, What could have been his object in thus devoting himself to a party? The answer is plain: to keep himself in place—to perpetuate himself in the enjoyment of the *power* and *profit* of the office he holds.

But it is asked again, Why, if that was his wish, did he not connect himself with the wealthy and the great? These, it is pretended, would have been better instruments of a scheme of personal aggrandizement.

Such a suggestion has scarcely the merit of plausibility. It is well known that large property is an object of jealousy in republics, and that those who possess it seldom enjoy extensive popularity. The Governor was aware that he would have risked the loss rather than have promoted the continuance of that which he possessed, by connecting himself with men of that class; and that his purpose could be better answered by an opposite course. Besides, from men who would suppose their pretensions not inferior to his, he would be more likely to experience *competition and contradiction*. The history of republics affords more examples of individuals arriving at dangerous pre-eminence, by a policy similar to that which has been pursued by the Governor, than in any other mode.

It is asserted, in order to excite prejudice, that the opposition to the Governor arises from the wealthy and the great. We believe it to be true that the principal part of the men of the most considerable property in the State are of opinion that a change is

necessary. But we believe it to be not less true that the same opinion embraces a large proportion of all other classes of the community. Will it follow that it must be wrong because men of property concur in it? Are they less interested than other people in good government? Do they advocate *one of their number* for his successor? Judge Yates certainly does not fall under that description. What motive, then, can they have, besides the public good, for giving him their support and suffrages?

It has been said that Judge Yates is only made use of on account of his popularity, as an instrument to displace Governor Clinton, in order that at a future election some one of the great families may be introduced. Let this surmise be candidly considered. It is admitted that Judge Yates is now a popular character; and it will not be doubted that he is a man of sense and integrity. If *he conducts himself with propriety*, it is not to be imagined that, with the addition of the influence which will naturally flow from the possession of the office, he will be less able, at the end of three years, to maintain his ground against any *partial* combinations which may have been formed against him, than he now is to succeed against the accumulated weight of a twelve-years' administration. Nothing, therefore, can be more far-fetched or strained than the supposition that such a design, as is mentioned, is entertained. It is evidently a mere artifice to destroy the effect of Judge Yates' general good character on the minds of his fellow-citizens, and to divert his friends from exerting themselves in his behalf.

The cry against men of property has been carried to an extreme by the friends of the Governor, which ought to alarm the considerate of every class. There is no stronger sign of combinations unfriendly to the general good, than when *the partisans of those in power* raise an indiscriminate cry against men of property. It argues *sinister designs*, which it is feared may be counteracted, by those whose situation renders them most likely to be independent. Such a cry is neither just nor wise. Not just, because no man ought to be hated for being either rich or poor. Providence has distributed its bounties in the manner best adapted to the general order and happiness. Not wise, because it tends to alienate those who are endeavored to be made odious, from the government under which they live, and to incline them to favor changes in the hope of bettering their condition; and because, in the second place, by destroying the confidence of the body of the people in men of property, it makes a co-operation between them for the defence of their common privileges and interests more difficult, and consequently renders it more easy for aspiring men, in possession of power, to prosecute schemes of personal aggrandizement and usurpation. These observations, we are confident, will strike the good sense of our fellow citizens.

Many of our most considerate citizens have long been of opinion that the Governor has possessed an undue and dangerous influence. In our first address we intimated the means by which such an influence might be acquired, through the medium of the council of appointment.

To this it is answered that the council of appointment consists of four members of the Senate annually chosen by the Assembly, and that it is improbable the Governor should be able materially to influence appointments made by a council so constituted. This we take to be the substance of the answer. Let us see if it be a satisfactory one.

It is to be remembered that though the council is constituted as stated, the Governor is a *standing member* of it, and in case of equal division has a casting vote. It is likewise to be attended to that he has constantly claimed the right of *previous nomination*, and we are greatly misinformed if he has not extensively practised upon that pretension. The exercise of such a power places the choice essentially on the Governor. If he is first to name the man who may be appointed, none can be appointed who are not agreeable to him. It is true the council may negative his nomination, but even this will require a majority; for if equally divided he can turn the scale in favor of his own nomination. If the person proposed be rejected by a majority, still it is in his power to propose another of his own liking, and to repeat this as often as he pleases, till an appointment is made in some degree conformable to his wishes. We do not presume that the practice has been answerable to the full extent of the principle. The power of previous nomination has been long since called in question, and it is probable that it has been found expedient to exercise it with caution, and oftentimes even to forbear the use of it. But in the general course of things it is presumable that the

operation of that pretension has given the Governor a prevailing influence in appointments.

But independent of the power of previous nomination, the mere circumstance of being a standing member of so *small* a council with a *casting vote* must give a man of tolerable address a preponderating weight in its arrangements, and consequently an extensive influence from the distribution of offices. Those who are in pursuit of them will naturally look up to him as one who must at all events have an agency in the business. Even the members of the council will be apt to gratify him to obtain his concurrence at the time and upon future occasions in appointments in which themselves personally or their friends are or may be interested. There are, besides, various expedients which an artful man may employ to carry his points in such a council. Times and places of meeting may be so managed as to exclude from attendance those whose presence may not be desired. There is room to suppose that the present Governor has not been inattentive to these advantages, and that he has even gone so far as to avoid making appointments, in the usual course, by a council disagreeable to him, in order to have them made by one more at his devotion.

Public opinion, we apprehend, corresponds with this reasoning concerning the Governor's influence in appointments. Those who are in quest of office generally think themselves sure of success, if they have reason to believe they have secured his co-operation.

The considerations which have been stated are,

we think, sufficient to show that the council of appointment is such an engine as we have before represented it to be, and that the conclusions which have been drawn from it are natural and pertinent.

Whether an improper or excessive influence has in fact been derived from the use of that engine, those who have been attentive to the progress of public affairs must decide for themselves. Appearances must be carefully consulted, and if there are instances in which members of the Legislature have been seen to change one party or system disagreeable to the Governor, for another party or system agreeable to him, and if that change of conduct has been observed to be speedily followed by the reception of lucrative appointments, the conclusion from such a fact would be irresistible.

The argument which is used against the supposition of such an argument can have no weight. It is said that such a supposition is a reproach to our representatives which ought to excite indignation. This is one of those arguments—if it may be called an argument—which proves too much, and is capable of being used at all times and under all circumstances. If it amounts to any thing it amounts to this, that it ought never to be supposed that our representatives can be *improperly influenced*; a position contrary to experience and human nature, and calculated to destroy that watchfulness in the people over the conduct of their representatives, which is an indispensable security of republican government.

We have too good an opinion of the virtue of our

countrymen to believe that any large proportion of those who may in any case have united in the views of the Governor have been under a sinister influence; but we think it very supposable that a *few* may have been in this situation, and that these few, by their advice and example, may have operated upon others so as to place a majority on the side where it might not otherwise have been.

In making these observations, our great object is to show that such an influence as is apprehended may be supposed consistently with probability and the usual progress of things. The reality of its existence, as we have already remarked, must be judged of from circumstances. If there are appearances which render it *probable*, the rules of republican caution will admonish us to seek a change. A very respectable part of the community are of opinion that the length of time for which the present Governor has been in office is alone a sufficient reason for his removal. This, however, is a sentiment which this committee have never expressed. The idea contained in our first address is, that considering the means of influence derived to our executive, from the nature of our council of appointment, *the administration of a governor ought to be free from blame, and from all suspicion of undue attachment to place or to profit, and very satisfactory to the community at large, to render it prudent in the people to leave so powerful an engine in his hands for a long succession of years.* In this sentiment, we doubt not, we shall be joined by every prudent and independent citizen.

How far, however, some of the gentlemen who

combat the position that long continuance in office is of itself a sufficient reason, in republican governments, for a change of men are consistent with themselves, requires some explanation. Mr. Melancthon Smith, one of the committee in the convention of this State objected to the constitution of the President of the United States, on account of the want of the principle of rotation, or, in other words, because he, like the governor of this State, may be re-elected as often as the people think proper, and proposed or advocated an amendment to alter that circumstance, which was adopted by our State convention. The great argument was the danger in republics of trusting power too long in the same hands. It will be difficult to show that the spirit of this objection does not operate against the re-election of a man who in this State has held the reins of government for near *twelve* years. It might even, with great force, be urged that it is more wise to observe the principle of rotation in practice, than to make it one of the fundamentals of a constitution. For though it might be imprudent to deprive the people of the liberty of making use of a man, in *particular emergencies*, when his services might happen to be *essential*, it may be very prudent in them to make changes from time to time, when no *public exigencies* call for *particular men*, merely to guard against the danger of a too long continuance in office.

In our first address we intimated the ill effects of the want of decent republican hospitality towards the members of Congress, and other public characters whom the affairs of the government call to reside

in this city. This has been answered by describing in strong terms the evils of extravagance and dissipation. It is asked whether it would be agreeable to the citizens of this State to see the principal magistrate constantly engaged in a scene of dissipation and luxury. We answer, most certainly not. We should be as ready to reprobate this conduct as the *contrary extreme*. But is there no *medium* between *extravagance* and *parsimony*? Cannot a chief magistrate observe the requisite attentions of hospitality without running into riot or intemperance, or exceeding the bounds of decent frugality and orderly living? Is it not even his duty to attend to the *former* as well as to the *latter*? Must not the supposition that it is so have been one of the inducements of the Legislature in annexing to the office the liberal emoluments which have been constantly annexed to it? Can we believe that our representatives would have been so lavish of the money of their constituents as they must have been if that was not a motive?

It is with reluctance we dwell upon this subject, but the friends of the Governor, by pressing his apology too far, have made it necessary. The charge against him in this respect is not, that he has been *frugal*, but that he has been *penurious*; not that he has paid a reasonable regard to a comfortable provision for his family, but that he has applied the greatest part of his public allowance to the accumulation of a large fortune, neglecting what was due to the decorum and dignity of his station.

It is, we conceive, impossible to join with his

friends in ascribing his conduct, in this respect, to the laudable motive they assign, the desire of setting an example of moderation and frugality. If he had been actuated by such a motive, why has he been always ready to accept such liberal allowances of the public money? Why did he never say to the Legislature: "I wish to ease the burthens of the people. I find by experience that you have been more bountiful than is requisite to the decent and proper support of the office. Let my salary be retrenched."¹ Such we think would have been the language and conduct of patriotic moderation; but the disposition *to receive much and spend little*, bespeaks the predominancy of a passion which certainly is no ornament in a public character.

As to the quantity of the property which may have been amassed by the Governor, during his administration, this is a subject which we should have left untouched, were it not for some observations in the address which seem to require notice. Whether the intimations, of fraudulent or indirect practices in that gentleman, which have appeared in the public prints, have really been serious accusations of imprudent adversaries, or fictitious charges brought by the friends of the Governor, for the sake of refuting them, and having it believed that he has been ill treated, we will not undertake to decide. But thus much we shall say, that the supposition of such practices has no share in the motives which, in our

¹ His friends give him credit for the reduction of his salary the last session; but if he had any share in the business, it cannot be considered as very meritorious at the eve of an election at which he knew he would be strongly opposed.

estimation, render his re-election inadvisable. And though we do not agree in the opinion that the idea of his being possessed of a large fortune is groundless, yet we should not impute blame to him on that account, in any other view than as he may be justly chargeable with *penury* in the manner of acquiring it, and with *disingenuity* in the attempts to conceal it. It is undeniable, that he has received from the State what may be deemed a handsome fortune, in a few accumulated payments,¹ and that he has made several profitable speculations in land. Some of these are publicly known, and others of them, we have good grounds to believe, are covered under the names of third persons.

The address under consideration contains many observations on the Governor's conduct and views in relation to the Constitution of the United States. To examine the justice or propriety of them would involve a discussion into which we cannot think it expedient to enter. After all that could be said, the judgment of every man would be regulated very much by previous opinions, and by a recurrence to *facts*. *These* are the only satisfactory standard to which we can resort. Professions or assertions will

¹ On a settlement of his accounts some time in the year 1782, there was a balance in his favor of upwards of 8,000 pounds. This sum he retained out of monies borrowed by him on the public account about that period, or some time in the year subsequent. His salary since that period has amounted to about 9,000 pounds, and there can be no doubt, from the manner of his living, that considerably more than one half of this has been saved. The mere interest of 8,000 pounds, for six years, is 3,920 pounds, so that taking it for granted the Governor has not left his money idle, and excluding the idea of extraordinary increase in land speculations, we have here data for supposing a fortune of not much short of 20,000 pounds.

never countervail, in any reasonable mind, the evidence which arises from them.

We must, however, observe that, in our opinion, the friends to amendments, of whatever party, will do well to join in support of Judge Yates. That gentleman, by having the confidence of both parties in this State, will be more likely to have the confidence of the United States, than one who is supposed by many of the most intelligent friends of the Constitution among us to desire its entire subversion. And it must be evident, that as far as the governor of a State can contribute to the attainment of amendments in the National Constitution, the man who is most likely to have the confidence and good-will of the Union will be the most likely to effect it.

In our first address we advanced the sentiment, that all should join "in the support of the Constitution established by the people of the United States, and that all should join in the reconsideration of the parts which have been the subject of objection." On this point we are charged with inconsistency, and it is asserted, that there is every reason to believe that the principal opponents of the Governor do not wish to see *any* amendments to the Constitution, and are averse to a reconsideration of it. As far as we are concerned, we affirm that the charge is destitute of truth, and we defy those who make it, to produce any thing like proof of its being well founded.

It is true that on the occasion of the election of a representative of this district in Congress, we most

of us contended for the propriety of choosing a person attached to the Constitution; but this certainly has nothing to do with a disinclination to amendments or to a reconsideration of the system; nor will it in any candid mind appear to militate against the sincerity of the desire, which we profess to have, of reconciliation and union between the different parties in the State. It was not to be doubted, that in other parts of this State every effort would be made by those who opposed the Constitution, to choose for representatives men of sentiments similar to their own, and it could not reasonably be expected, under such circumstances, that its friends in a friendly district would not be equally strenuous for representatives of their own sentiments. Could it be expected that we should abandon the distinctions which actually exist, previous to a foundation being laid for a reciprocal renunciation of them? This is the desirable object at which we and our fellow-citizens now aim.

Nor can a better proof be given of it than in the disposition manifested to support a man of political opinions different from those generally entertained by them and by us. And we strongly flatter ourselves that the desirable end in contemplation will be attained by the co-operation of all those throughout the State who wish to see the spirit of faction and dissension extinguished.

We forbear any further comment on the address of our opponents. We trust that nothing they have offered, which has the semblance of argument, remains unattended to, and we do not choose to

pursue them into any other field. We trust that all the considerate, disinterested, and independent, all the sincere lovers of peace and harmony, all those who are unwilling to sacrifice the *good of the State* to the *aggrandizement or advantage* of an *individual*, will heartily unite in the endeavor to appease the distractions of the community. It is evident that a large proportion of it is, in all probability, irreconcilably dissatisfied with the administration of the present Chief Magistrate. There can, therefore, be no rational hope of future union or concord under his auspices. And we boldly appeal to the breast of every good citizen, and ask what inducement there can be to support the re-election of Governor Clinton, which ought to stand, even for an instant, in competition with the blessings of union and concord.

By order of the Committee,

ALEXANDER HAMILTON,

Chairman.

LETTERS OF H. G.

LETTERS OF H. G.

LETTER I

NEW YORK, February 20, 1789.

DEAR SIR:

Your letter of the 18th instant has duly come to hand, and entitles you to my particular thanks. In return I shall endeavor fully to comply with your request, and furnish you, in a series of letters, with all the material in my power to enable you to judge what conduct it will be proper for you to pursue in relation to the ensuing election for governor. Your influence is considerable, and you do well to examine before you resolve on what side to bestow it.

The present Governor was bred to the law under William Smith, Esquire, formerly of this city. Some time before the late revolution he resided in Ulster County, and there followed his profession with reputation, though not with distinction. He was not supposed to possess considerable talents, but, upon the whole, stood fair on the score of probity. It must, however, be confessed, he very early got the character with many of being a very *artful* man, and it is not to be wondered at, if that impression, on the minds in which it prevailed, deducted something from the opinion of his integrity. But it

would be refining too much to admit such a consequence to be a just one. There certainly are characters (though they may be rare) which unite a great degree of address, and even a large portion of what is best expressed by the word *cunning*, with a pretty exact adherence in the main to the principles of integrity.

Mr. Clinton, from his youth upward, has been remarkable for a quality which, when accompanied by a sound and enlarged understanding, a liberal mind, and a good heart, is denominated *firmness*, and answers the most valuable purposes; but which, when joined with narrow views, a prejudiced and contracted disposition, a passionate and interested temper, passes under the name of *obstinacy*, and is the source of the greatest mischiefs, especially in exalted public stations.

This gentleman, immediately preceding the contest with Great Britain, was several times returned a member of Assembly for the county in which he lived, and being of a warm, zealous, and resolute temper, became in a great measure the head of one of the parties which then prevailed in the Legislature. The merit or demerit of these parties is not now worthy of discussion, nor can they, or the principles upon which they reciprocally moved, be too soon or too entirely buried in oblivion.

In the beginning of 1775 the contest with Great Britain had become serious; and we all remember the interesting question then agitated in our Assembly, respecting the co-operation of this State in the general measures of America. Here Mr. Clinton

and Mr. Philip Schuyler¹ were the leaders of the minority, who advocated the propriety of that co-operation; and both these gentlemen, for their conduct upon the occasion, will always be entitled to credit from the friends of the revolution. To compare the degree of merit to which they may respectively lay claim would be an invidious task. But as the partisans of Governor Clinton have taken pains to propagate an opinion of superior merit in him, in regard to this transaction, it is but justice to the other gentleman to observe that he was equally *open* and *decided* in the part he took in that question; that as none will pretend to ascribe to Mr. Clinton greater abilities than to Mr. Schuyler, the exertions of the latter must have been at least as useful as those of the former; and that Mr. Schuyler has in his favor the additional circumstance of having risked a large property, which Mr. Clinton had not to risk, upon the event of this revolution.

With sincere esteem,

I remain, dear sir,

Your obedient servant,

H. G.

To ———, Esq., Suffolk County.

LETTER II

NEW YORK, February 21, 1789.

SIR:

Shortly after the breaking out of the war with Great Britain, Mr. Clinton received an appointment

¹ Then called Colonel Schuyler, and since General Schuyler.

as brigadier-general, in which capacity he served until he was elected governor of this State, some time in the early part of the year 1777.

In both these situations, from the condition of the State, which, during the greater part of the war, was its principal theatre, Mr. Clinton was frequently engaged in military duties. There is, however, no part of his character which has been more misrepresented than the military part of it. His panegyrists describe him to us as the "war-worn veteran"—the complete soldier—the consummate general. One would imagine from their stories of him that he had often, in the language of Sergeant Kite, "breakfasted upon ravelins, and picked his teeth with palisadoes,"—that he was the first of American generals—a Marius in courage—a Cæsar in skill—inferior in nothing to a Turenne or a Monticuculli, an Eugene or a Marlborough. But trust me, my dear sir, this is mere rant and romance. That Mr. Clinton is a man of courage, there is no reason to doubt. That he was upon most occasions active and vigorous, cannot be justly disputed. In his capacity of governor he was ever ready to promote the common cause, prompt in affording the aid of the militia when requisite, and scrupling not, when he thought his presence might be of use, to put himself at the head of them. But here his praise as a soldier ends. Beyond this he has no pretension to the wreath of military renown. No man can tell when or where he gave proofs of generalship, either in council or in the field. After diligent inquiry, I have not been able to learn that he was ever more than once in actual combat. This

was at Fort Montgomery, where he commanded in person, and which, after a feeble and unskilful defence, was carried by storm. That post, strongly fortified by nature, almost inaccessible in itself, and sufficiently manned, was capable of being rendered a much more difficult morsel to the assailants than they found it to be. This, I own, was not the common idea at the time; but it is not the less true. To embellish military exploits, and varnish military disgraces, is no unusual policy. Besides, Governor Clinton was at the zenith of his popularity—a circumstance which disposed men's minds to take a great deal for granted. One particular in this affair deserves to be noticed. It is certain that the Governor made a well-timed retreat (I mean personally, for the greatest part of the garrison were captured), a thing which must have occasioned no small conflict in the breast of a commander nice in military punctilio. But squeamishness on this head had been ill-placed. It was undoubtedly the duty of the *Brigadier* to provide in season for the safety of the Governor.

Those who are best acquainted with the particulars of the burning of Esopus, in the fall of the year 1777, assert that his Excellency was culpably deficient in exertion on that occasion. The fact seems to have been that a large body of men remained unemployed in the vicinity, under his direction, while the descent of the enemy was made with little or no opposition. And there is room to suppose that, if a better countenance had been kept up, the evil might have been prevented.

Very sincerely yours, H. G.

To ——, Esq., Suffolk County.

LETTER III

NEW YORK, February 22, 1789.

DEAR SIR:

You mention, toward the close of your letter, two reports circulating in your county, which you say operate to the advantage of Mr. Clinton: the one, that at the time he first took the chair of government, "the great men," as they are insidiously called, declined the station, through apprehension of the dangers that might attend it,—not less willing *then* to set him up as a mark for the resentment of the power with which we were contending, in case of an unfortunate issue to the war, than eager *now* to deprive him of the well-earned fruits of his courage, after it has been happily terminated; the other, that the exertions made by this State during the war are chiefly to be attributed to his influence.

Truly, my dear sir, had the terms of your letter been less positive, I could not have supposed it possible that suggestions so unfounded as these, and so easily to be disproved by the testimony of all well-informed men, could ever have been propagated.

So far is the first report from being true, that it is a fact notorious to those who were acquainted with the transactions of the period, that in the very first election for governor in this State General Schuyler was a competitor with Mr. Clinton for the office, and it is alleged would have been likely to prevail, had not the votes of a considerable body of militia, then under the immediate command and influence of the latter, turned the scales in his favor.

Neither is there much more of truth in the second

report. Mr. Clinton's zeal and activity in forwarding the revolution were unquestionably conspicuous. But to ascribe to him the chief merit of the exertions of the State is to decorate him with the spoils of others. There were, at every period of the war, choice spirits in both Houses of the Legislature, his equals in zeal and fortitude, his superiors in abilities. These men needed not his incitement to invigorate their efforts, nor his counsel to direct their plans.

One of the number *only* I shall name, Egbert Benson, Esq., the present attorney-general; this gentleman, in the capacity of a member of the Assembly, long had a principal agency in giving energy and animation to the measures of the State. In confining myself to the mention of Mr. Benson, it is not because there are not others who have an equal right to it, but because it is his peculiar good fortune *to have virtues and talents, and yet to be unenvied*. And as it is my intention you should be at liberty to make any use of these letters which you may think proper, I am unwilling to attempt an enumeration of all the characters alluded to, lest, if incomplete, it should be the occasion of offence. Though not immediately connected with the subject, there is one circumstance which I cannot forbear mentioning before I conclude. Mr. Benson, during the war, was considered as the confidential friend and adviser of the Governor. Not long after the peace, it was perceived that this relation between the two persons began to be weakened, and it is some time since it has been understood to have entirely ceased. The first appearance of the change was, to discerning

men, an ill omen of the future. But Benson was an unfit confidant for the new system of policy. He was honest and independent. Materials better adapted for *tools* were wanted, and they have been selected with admirable judgment.

Yours, with much regard,

H. G.

To ———, Esq., Suffolk County.

LETTER IV

NEW YORK, February 24, 1789.

You will perceive, my dear sir, from the sketch I have given you, that though the present Governor has a just title to credit for his exertions in the last revolution, yet the degree of credit to which he is entitled has been immodestly exaggerated. It is to be wished, nevertheless, for the honor and interest of the State, that his administration since the peace was proportionably commendable. But with the close of the war, the scene of merit closes. All that succeeds is either negative or mischievous.

It may seem strange to some, that a man who had behaved well in one situation should be so entirely defective or faulty in another. But men acquainted with human nature and its history, on a large scale, will be sensible that there is nothing extraordinary in the thing. Many of those who have proved the worst scourges of society have, in the commencement of their career, been its brightest ornaments. These fair beginnings are sometimes the effect of premeditation, to pave the way to future mischief; at other

times, they are the natural result of a mixed character, placed in favorable circumstances.

In all struggles for liberty, the leaders of the people have fallen under two principal discriminations; those who, to a conviction of the real usefulness of civil liberty, join a sincere attachment to the public good, and those who are of restless and turbulent spirit, impatient of control, and averse to all power or superiority which they do not themselves enjoy. With men of the latter description, this transition from demagogues to despots is neither difficult nor uncommon.

Mr. Clinton, as a zealous advocate for American independence in the course of a war, in which the cause to which he was attached was every moment exposed to the most critical hazards, under the influence of a sense of continual danger to that cause, and of course to himself, as one of its supporters, was naturally led to activity and exertion. But such a situation affords a very partial and imperfect view of his character. No certain conclusion can be drawn from it of the general disposition and principles of the man. These can only be estimated with certainty in situations in which the passions have their natural and ordinary course, free from any violent impulse of any kind.

It is therefore in the peace-administration of Mr. Clinton, that we may expect to find the best materials for judging of his fitness or unfitness to govern. These I shall endeavor to explore in some succeeding letters, concluding the present with this general observation: *I do not recollect a single*

measure of public utility, since the peace, for which the State is indebted to its Chief Magistrate.

Yours, with sincere regard,

H. G.

To ———, Esq., Suffolk County.

LETTER V

NEW YORK, February 25, 1789.

DEAR SIR:

In yours of the 23d instant, which has just come to hand, you observe that there are persons in your county who entertain favorable impressions of the present Governor, for the good order preserved in this city upon the evacuation by the British troops, and which you say is ascribed to his moderation, care, and decision. This is an idea not confined to your county. Mr. Clinton and his friends have had the address to disseminate it in this and in other parts of the district. The apprehensions excited by some inflammatory publications, prior to our taking possession of the city, disposed men's minds to regard it as a great merit in the Executive, that they were not subjected to general plunder and massacre. But this compliment to him includes a supposition of licentiousness and fury in the citizens in general, who returned within the district at that period, which they do not deserve, and which, in truth, form no part of the American character.

It must be confessed that there were a few violent men, and that these, for the sake of present consequence, endeavored to work on the passions of others

for intemperate purposes. But the number of those who were inclined to violate the laws, or disturb the public peace, was at no time considerable enough to make the danger serious. The greater part were either for liberal and moderate measures, or, at worst, for some legislative discriminations. It is worthy of remark, that some of the most heated have been, at all times, warm adherents to the Governor, and objects of his peculiar patronage.

What was the precise line of conduct pursued by his Excellency at the juncture in question, I have never been able clearly to ascertain. But to many, and to me among the rest, it appeared indecisive and temporizing, favoring more of artifice and duplicity than of real prudence or energy. A popular Chief Magistrate, as Mr. Clinton then certainly was, standing on the firm ground of national faith and the constitution, by an independent use of his influence, might, in all probability, have prevented some measures of that day which have been both injurious and disreputable to the State.

The inclination of the Governor to hinder tumult or commotion is not to be questioned. In his situation, a man must have been both abandoned and mad not to have had that inclination. Regard to his own authority and consequence, independent of other motives, was sufficient to produce it. But there are circumstances which warrant a conclusion, that he had formed a plan of building up his own popularity in the city upon that of certain individuals who were then advocates for persecution; not, indeed, in the shape of mobs and riots, but of *law*;

by banishment, disfranchisement, and the like; and that his conduct was guided by condescensions to them, which, in some measure, involved him in their policy. There is a fact to this effect, the particulars of which I do not now distinctly recollect, but which, as far as my memory serves me, was of the following complexion:—The council appointed for the temporary government of the southern district, on account of some irregularities which had happened, passed a resolution, or framed a proclamation, for repressing the spirit that had occasioned them, which was intrusted to the Governor for publication. Instead, however, of executing the intention of the council, he communicated their act to two of the persons alluded to, and, upon their advices or remonstrances, withheld it from publication till the next meeting of the council, a majority of whom were then prevailed upon to rescind it.

It is not undeserving of attention, that the chief agents in promoting the laws passed after the evacuation of the city, of which the inhabitants of the southern district had reason to complain, were men who had been constantly devoted to the Governor; and that the persons who have had the greatest share in mitigating or abrogating those exceptiona laws have been in opposite views to him. And it ought not to escape observation, that there has never been any official act of the Governor calculated to effect the alteration or repeal of those laws.

It is with reluctance, my dear sir, that I look back to transactions which cannot be too soon forgotten.

All parties now rejoice in the effects of a more liberal policy. And I should not have been induced to revive topics of so disagreeable a nature, had it not been necessary as well to the advancement of truth as to the performance of my promise to you.

I remain your friend and servant,

H. G.

To ———, Esq., Suffolk County.

LETTER VI

NEW YORK, February 26, 1789.

DEAR SIR:

I shall now proceed to give you a brief history of the Governor's administration since the peace, as it respects the United States, from the whole of which, preferring the evidence of *actions* to that of *professions*, I am persuaded that you will agree with me, that there is satisfactory proof of his being an enemy to the AMERICAN UNION.

The facts from which I shall draw this conclusion are of the following nature:

I. That while he has acknowledged the insufficiency of the old government, he has strenuously opposed the principal measures devised by the joint councils of America for supporting and strengthening it.

II. That he has treated Congress, as a body, in a contemptuous manner.

III. That his behavior towards the individuals composing that body has been of a nature calculated to give them just cause of disgust.

IV. That he disapproved of the very first step taken toward the effectual amendment of the old confederation.

V. That he prejudged and condemned the new Constitution before it was framed.

VI. That he opposed it, after it appeared, with unreasonable obstinacy.

VII. That he has continued his opposition to it even since its adoption by this State. And,

VIII. That he is unfriendly to the residence of Congress in this city.

From the assemblage of these facts, I am mistaken, my dear sir, if you do not think the evidence of his enmity to the Union complete; and I shall not be the less mistaken if you do not consider this as a conclusive objection to his re-election.

Whatever may have been your doubts respecting parts of the new Constitution, I am satisfied that you regard the preservation of the UNION as essential to the peace and prosperity of the country, and will deem it unsafe to trust any man with power, who entertains views inimical to it.

Unfeignedly yours,

H. G.

To ———, Esq., Suffolk County.

LETTER VII

NEW YORK, February 27, 1789.

DEAR SIR:

In my last I stated a number of facts tending to prove that Mr. Clinton is not a friend of the *Union*.

I would not be understood that either of these facts singly would authorize such a conclusion, but that it is the result of them collectively. Many men, of whose good intentions I have no doubt, have entertained similar sentiments with him on several of the points stated; but I am mistaken if there is to be found one, out of the circle of his immediate instruments, who has had or discovered the same disposition in all the particulars. I shall now briefly mention the different articles of charge.

The first is, that, while he has acknowledged the insufficiency of the old government, he has strenuously opposed the principal measures devised by the joint councils of America for supporting and strengthening it.

This admission of the insufficiency of the old confederation has not only been made in private conversations, but fully and pointedly in the late convention of this State. He has not, however, uniformly held the same language, as will be taken notice of hereafter.

To prove the latter part of the charge, I shall instance his opposition to the impost system proposed by Congress, and repeatedly urged by them as the only measure to obtain revenue, for objects of indispensable importance, on which reliance could be placed.

The first idea of a general impost for the benefit of the United States is said to have originated in a convention held at Hartford, consisting of deputies from the four New England States and from New York. The measure was agreed upon in Congress

in February, 1781, at a period when the United States, after various trials of requisitions and of other expedients, were reduced to the utmost extremity of distress for want of money to carry on the war. The impost then proposed was, I believe, granted by all the States except Rhode Island. The act of this State, passed 19th of March, 1781, expressly provides, that the duties granted to Congress "*should be levied and collected in such manner and form, and under such pains, penalties, and regulations, and by such officers, as Congress should from time to time make, order, direct, and appoint.*"

But, on the appearance of peace, the system of our policy changed. The foregoing act was repealed by one passed the 15th of March, 1783, by which it was too apparent that the leaders of our councils, at the first dawn of peace, were resolved to desert the principles which had governed them in the time of common danger.

It is true, that the same act grants the duties anew, but to be collected by the officers and under the authority of the State; which was so essential an alteration of the plan as would have rendered it necessary (had not the opposition of Rhode Island already done so) to recommence the business in a new form, in order that all the States might stand on an equal footing.

I remain, dear sir,

Your obedient and humble servant,

H. G.

To ——, Esq., Suffolk County.

LETTER VIII

NEW YORK, February 28, 1789.

DEAR SIR:

The embarrassments experienced in carrying through the first plan, the increase of the national debt, and other circumstances, induced Congress to devise a new system of impost, which was finally agreed upon on the 18th of April, 1783.

In this system, the appointment of the officers to collect the duties was referred to the several States, which it was supposed would remove the principal objection to the former plan. All the States, except New York, substantially adopted it, annexing certain precautions for the more secure exercise of the powers granted to Congress. But New York persisted to the last in withholding her assent. She passed, indeed, a law for granting an impost on different principles; but as Congress could not accept this without releasing the other States, and setting the whole business afloat, it was evident to all the world that the act of New York was nothing better than a mere evasion of the thing asked.

The Governor, undoubtedly, took an active part in opposition to this measure. It is true, he declared in the convention that he had always been a friend to the impost, but *could not agree* to the manner in which Congress proposed to exercise the power. This is plainly a subterfuge. He was a friend to an abstract something, which might be any thing or nothing, as he pleased; but he was an enemy to *the thing proposed*. A general impost, being a measure not within the provision of the

confederation, could only be brought about by some general plan devised by the common councils of the UNION, and submitted to the adoption of the several States. There could else be no concert, no common agreement. To oppose, therefore, the specific plan offered, and yet pretend to be a friend to the thing in the abstract, deserves no better name than that of hypocrisy.

I am possessed of unquestionable evidence, to prove that he used personal influence with members of the Legislature to prejudice them against the granting of the impost. You may obtain a confirmation of this from one of the gentlemen who represented your own county in the year 1786. The argument employed with him was, that Congress being a single body, and consequently without checks, would be apt to misapply the money arising from it. This looks like more than an objection to the mode. If the money was to be granted in any shape, that consequence, if to be apprehended at all, might follow.

A question of a very delicate and serious nature arises on the conduct of the Governor. Is it justifiable in the Chief Magistrate of a State to employ his personal influence with individual members of the Legislature in relation to any matter of public concern which is to come under their deliberation? To me an interference of this sort appears highly exceptionable.

With sincere regard, I am, dear sir,

Your most obedient servant, H. G.

To ———, Esq., Suffolk County.

LETTER IX

NEW YORK, March 2, 1789.

DEAR SIR:

The second particular which I have stated, as evidence of Mr. Clinton's enmity to the Union, is, that he has treated Congress, as a body, in a contemptuous manner.

A proof of this exists in his refusal to convene the Legislature of this State in the year 1786, upon pressing and repeated supplications of Congress; sheltering himself under the frivolous pretence that the constitution did not leave him at liberty to do it.

The constitution empowers the governor to convene the Legislature "on extraordinary occasions." This provision is evidently calculated to enable him to call together the Legislature whenever any thing of importance out of the ordinary routine of State business should occur. To put any other meaning upon it is absurd, and would embarrass the operations of government. It cannot be supposed that the constitution intended by "extraordinary occasions" nothing but wars, rebellions, plagues, or earthquakes. The word "extraordinary," as used in this case, can only be construed as equivalent to *special*; and a special occasion is any thing of moment out of the common and expected course. It merits attention, that the words of the constitution are, simply, that the governor "shall have *power* to convene the Legislature upon extraordinary occasions." This mode of expression has plainly an *authorizing* and *empowering*, not a *restricting* operation. It is true that the governor is bound, in the

exercise of this power, to observe a reasonable discretion, and not to act with caprice, levity, or wantonness; but the same may be said of every other power with which he is intrusted, and does not affect the constitutional sense of the provision.

Let us now, sir, take a view of the nature of the application and refusal. The Legislature of the State, in May, 1786, passed the act I have already mentioned, in lieu of one conformable to the *plan proposed* by Congress, and *agreed* to by the other twelve States; for even Rhode Island had at length got the better of her scruples. Congress were of opinion, for the most obvious and solid reasons, that they could derive no advantage from the act of New York; that to attempt it would be to let go their hold on the twelve adopting States, who had made the passing of similar acts by all the States the condition of their grants; that the act of New York, independent of the objection just mentioned, was framed upon principles mischievous in their nature, and calculated not only in a great measure to defeat the revenue, but to prevent several of the States from entering into the plan. One of these principles was, that the paper-money of the States should be receivable in payment of duties. If Congress had acceded to such a plan, the consequence would have been that the other States which had emitted paper-money would insist upon the same privilege; by which means the duties would be paid in nominal money of different degrees of value, in some States at a depreciation of forty or fifty per cent.; a circumstance which would have diminished

the product of the impost, rendered the burthen unequal upon the citizens of different States, and deterred the States averse to paper-money from engaging in the scheme.

Congress, for these and other good reasons, considered the act of New York as amounting to nothing. They felt at the same time that the honor and interest of the Union were suffering for want of the co-operation of this State. They experienced the most painful embarrassment, in particular, from the just demands of those foreigners who had lent us money to carry on the war. They saw themselves without resource even for paying the interest of the foreign debt, except by new loans abroad for that purpose,—a resource which had the pernicious effect of an accumulation of the debt (for which all our estates must be considered as mortgaged) by the tremendous process of compound interest.

In this disgraceful and ruinous situation, the representatives of the United States make a solemn application to the Governor to convene the Legislature for the purpose of reconsidering the act. He refuses to comply, assigning the curious reason that the constitution empowers him to convene the Legislature only on extraordinary occasions, and that the present does not seem to him such. To give color to this idea, he intimates the recent consideration of the business by the Legislature.

He seems in this proceeding not only to have taken it for granted that the Legislature would be immovable by the most solid reasons for altering their policy (which, if true, he had no right to

presume), but also to have forgotten, or not to have chosen to recollect, that the Legislature to be convened was not to be regarded as the same body which had before decided, having been formed by a subsequent election of the people. The measure would, therefore, have had to undergo a new examination by a new body.

He, notwithstanding, refuses. Congress, impelled by the exigency of the situation, pass new resolutions, declaring their opinion that the critical and embarrassed situation of the finances of the United States required that the system of impost should be carried into immediate effect, and that they deemed the occasion sufficiently important and extraordinary to request that the Legislature of this State should be convened, and therefore again earnestly recommending it to the Executive to convene the Legislature. The Governor persisted in his refusal, and the Legislature is not convened.

Now, sir, I will boldly appeal to every candid mind whether this transaction is not evidence, as well of a splenetic and disrespectful disposition toward the government of the United States, as of a temper inflexibly haughty and obstinate. In what a humiliating light must he have considered Congress, not to have looked upon their earnest and repeated application on a matter which they and all the other States, thought of the most serious moment to the Union, in a situation notoriously distressing and critical, as an occasion sufficiently special to leave him *at liberty* to call the Legislature together! How much of contempt and disregard

toward the representative authority of confederated America was implied in such a construction! The merits of the impost system are of no consequence in the consideration of the subject. The whole is a question of decorum and due deference in the head of a particular member of the confederacy toward the head of the whole confederacy. In this light, it is evident that the conduct of the Governor on the occasion was an insult to the people of the United States, and of course to the people of this State, through their representatives in Congress.

I remain with the truest attachment, dear sir,

Your obedient and humble servant,

H—— G——.

To ——, Esq., Suffolk County.

LETTER X

NEW YORK, March 3, 1789.

DEAR SIR:

I have mentioned as a third circumstance tending to prove the enmity of the Governor to the *Union*, "that his behavior toward the individuals composing Congress has been of a nature calculated to give them just cause of disgust."

I am well informed that his Excellency never made a visit to, or had any intercourse of civilities with, either of the two last Presidents of Congress. This neglect on his part appears the more pointed, as it is well known that he had been upon a footing of intimacy with one of the gentlemen previous to his appointment—I mean General St. Clair. This

gentleman had been heard to lament that the Governor's conduct toward him, in an official respect, had put it out of his power to keep up the amicable intercourse which had formerly subsisted between them. It seems as if the character of a President of Congress amounted, in the Governor's estimation, to a forfeiture even of the rights of private friendship.

This behavior to the official head of Congress is to be regarded in a stronger light than mere disrespect to the individual. It may justly be esteemed disrespect to the body themselves, and to have been dictated by a disposition to humiliate the government which they administered.

The same spirit ran through the Governor's conduct toward the members of Congress in general. Very few, if any of them, experienced any attentions whatever from him.

Whatever apology may be made for the Governor's want of decent hospitality toward the representatives of the United States, I believe it will be difficult to find an excuse for his personal neglect of them. There are civilities which cost nothing, and these might have been bestowed without any violation of the frugality of his Excellency's maxims.

It may be asked how it can be determined where the fault lay, whether with the Governor, or with the individuals of Congress. I answer, that with regard to the Presidents of Congress, there can be no doubt. As that body sat in the State, it was unquestionably the duty of the Governor to pay the first attentions to the President after his election.

This rule has been understood throughout America, and its propriety is self-evident. The omitting to pay those attentions was a mark of disregard to the government of the Union, for which there can be no excuse, and which admits of but one interpretation.

Dear sir,

Yours sincerely, etc.,

H—— G——.

To ——, Esq., Suffolk County.

LETTER XI

NEW YORK, March 4, 1789.

DEAR SIR:

Some time in the latter part of the year 1785, or beginning of 1786, the State of Virginia proposed the holding of a convention for the purpose of devising some system of commercial regulations for the United States. This State, among others, acceded to the proposition, and the deputies from the different States appointed pursuant, met at Annapolis in the fall of 1786. But the number actually assembled formed so incomplete a representation of the Union, that, if there had been no other reason, it would have been inexpedient for them to proceed in the execution of their mission. In addition to this, they were unanimously of opinion that some more radical reform was necessary; and that even to accomplish the immediate end for which they had been deputed, certain collateral changes in the federal system would be requisite, to which their powers in general could not be deemed competent. Under

these impressions, they, with one voice, earnestly recommended it to the several States to appoint deputies to meet in convention, in the ensuing month of May, with power to revise the confederation at large, and to propose such alterations and amendments as should appear to them necessary to render it adequate to the exigencies of the Union.

The report of this convention was in course handed to the Governor, on the return of the deputies of this State from Annapolis.

I have ascertained it beyond a doubt that, in a conversation on the subject of this report, he expressed a strong dislike of its object, declaring that, in his opinion, no such reform as the report contemplated was necessary; that the confederation as it stood was equal to the purposes of the Union, or, with little alteration, could be made so; and that he thought the deputies assembled upon that occasion would have done better to have confined themselves to the purposes of their errand.

This was the first thing that gave me a decisive impression of the insincerity of his Excellency's former conduct. The opponents of the impost system had, in their writings and conversation, held up the organization of Congress as a principal objection to the grant of power required by that system. The same sentiment had been conveyed by the Governor. The want of checks from the constitution of Congress, as a single body, seemed to be the bulwark of the opposition. But now that a proposal was made which evidently had in view a different construction of the Federal Government, the

language was all at once changed. The old confederation as it stood, or with little alteration, was deemed to be competent to the ends of the Union.

This, then, seemed to be the true state of the business. On the one hand, Congress, *as constituted*, was not fit to be trusted with power; on the other, it was not expedient to *constitute them differently*. To me it appears impossible to reconcile all this to a sincere attachment to an *efficient Federal Government*. Thus, sir, have I explained to you my meaning in the assertion: that the Governor disapproved of the very first step taken toward the effectual amendment of the old confederation.

I remain with esteem, dear sir,

Your very humble servant,

H. G.

To ——, Esq., Suffolk County.

LETTER XII

NEW YORK, March 6, 1789.

DEAR SIR:

One of the circumstances stated to you in mine of the 26th of February, to show that the Governor is unfriendly to the *Union*, is, that he prejudged and condemned the new Constitution before it was framed.

This fact has been long since given to the public, to which no other answer, that I have heard, has been made by his Excellency or his friends than that he, as a citizen, had a right to entertain and declare such sentiments as appeared to him proper.

This is a position not to be denied; but it is equally undeniable that his constituents have as good a right to judge of the propriety of his opinions and conduct, and of the views by which they seem to be actuated.

While the convention was sitting at Philadelphia, the Governor, I am well informed, made unreserved declarations of his opinion, that no good was to be expected from the appointment or deliberations of that body. That the most likely result was, that the country would be thrown into confusion by the measure. That it was by no means a necessary one, as the confederation had not had a sufficient trial, and probably, on more full experiment, would be found to answer all the purposes of the Union.

Here we shall discover the clearest indication of a predetermined opposition in the mind of his Excellency. He is not a man governed in ordinary cases by sudden impulse. Though of an irritable temper, when not under the immediate influence of irritation he is circumspect and guarded; and seldom acts or speaks without premeditation and design.

Language of the kind I have mentioned, from him, clearly betrayed an intention to excite prejudices beforehand against whatever plan should be proposed by the convention. For such conduct, or for such an intention, no apology can be made. The United States conceived a convention to be proper, necessary, and expedient. They appointed one, this State concurring. Their deputies were actually assembled, and in deliberation. The step once taken, it became the duty of every good man to give the

attempt a fair chance. It was criminal to endeavor to raise prepossessions against it. That very conduct might have led to the mischief predicted. It was certainly not his Excellency's fault that his predictions were not fulfilled. In all probability, if his whole party had been as pertinacious as himself, the confusion he foretold would now exist. But, happily for the United States, some of them were more prudent, and we are in peace.

The declarations of the Governor on this occasion fix upon him the charge of inconsistency. How can what he said in the instance in question be reconciled with his declaration in the convention, "*that he had always lamented the feebleness of the confederation*"?

Yours, with great regard,

H—— G——.

To ——, Esq., Suffolk County.

LETTER XIII

March 7, 1789.

DEAR SIR:

The next in order of the circumstances alleged in proof of the unfriendly disposition of the Governor to the Union, is that he opposed the new Constitution, after it appeared, with unreasonable *obstinacy*.

To judge of the propriety of this observation, it ought to be recollected, that the merits or demerits of that Constitution must, after all, be in a great measure a speculative question, which experience only can solve with *certainty*.

It ought also to be recollected that the convention who framed it consisted, if not wholly, at least generally, of men from whom America had received the strongest proofs of patriotism and ability; that this body, so composed (with the exception of only three individuals), united in the plan, which was the result of their joint deliberations; and that a Franklin and a Washington are among the number of those who gave their approbation to it.

It ought further to be attended to, that when the convention of this State came to a decision, ten out of the thirteen States *had adopted* the Constitution, and that a *majority* of the characters in each State, most distinguished for virtue and *wisdom*, were among its advocates.

These, sir, are *truths* which (notwithstanding the clandestine arts made use of to traduce some of the best and brightest characters of America for being friends to the Constitution) no man of candor or information among its opponents will deny.

I do not infer from them that the Constitution ought on those accounts to have been considered as a good one; but I contend that they dictated greater moderation in the opposition than appeared in the Governor's conduct. They ought to have taught him, that unless he had better assurance of his own infallibility than an impartial estimate of himself would justify, there was a possibility of his being mistaken in his *speculations*; and that as a further resistance to the general sense of America was pregnant with manifest inconveniences and

hazards, it became him to sacrifice the pride of opinion to a spirit of accommodation.

I should be the last to blame any man for opposing the adoption of the Constitution while its establishment was yet a question in the United States; but when that was no longer the case; when nine States, the number required by the Constitution to its establishment, had adopted it; when it had thereby become the government of the Union, I think further opposition was not justifiable by any motives of prudence or patriotism. These considerations had their proper weight with a great proportion of the Governor's party.

Out of sixty-four members, of which the Convention of this State consisted, there were at first only nineteen in favor of the Constitution. In the conclusion, there was a majority which did actually adopt it. But the Governor *persisted to the last in his negative.*

All those of his party who concurred in the adoption (and among whom were some of its ablest leaders), are to be regarded as so many witnesses to the unreasonable obstinacy of the Governor's conduct on the occasion. Why did they agree to adopt? Because they saw that a contrary course was replete with danger to the peace and welfare of this State and of the Union. They acted in that like moderate and prudent men. Why did not his Excellency act a similar part? Let facts decide! Let the collective complexion of his language and behavior inform us! The inference from the whole will certainly not exempt him from the imputation

of obstinacy, nor give us a very favorable impression of his inclination to preserve the tranquillity and UNION of the States.

I entertain no doubt that your judgment of this instance of the Governor's conduct will correspond with mine, as I have understood that the conduct of the members of your county had met your entire approbation. These gentlemen are among the number of those who, though, like yourself, not attached in the abstract to the Constitution as it stands, prudently yielded to the considerations of expediency which recommended its adoption.

Accept my best wishes for your health, and

Believe me always yours,

H—— G——.

To ——, Esq., Suffolk County.

LETTER XIV

March 8, 1789.

DEAR SIR:

The seventh of the circumstances enumerated in proof of his Excellency's enmity to the Union is, that he has continued his opposition to the new Constitution even since its adoption by this State.

There are two kinds of opposition, direct and indirect. The Governor must have been an idiot to have rendered himself chargeable with the first kind. It would have brought the resentment of the whole community upon him, and frustrated the very object he had in view. Indirect methods were the only ones that could be practised with safety, or with any

prospect of success. To embarrass, not to defeat, the operations of the government, was, of necessity, the plan of a man who wished ill to it.

The adversaries of the Constitution in Virginia have furnished a striking specimen of this species of policy. The last Legislature, in which they were predominant, made no difficulty about organizing the government. The act of the people was, of course, to be obeyed in appearance. But its efficacy was to be destroyed by throwing obstacles in the way of the administration of the system. For this purpose an act has been passed, declaring it incompatible for any officer of the State to perform official functions under the authority of the United States.

This act, *if valid*, would *oblige* the United States to have a complete set of officers for every branch of the national business—judges, justices of the peace, sheriffs, jail-keepers, constables, etc.,—which could not fail to render the government odious. This may serve as a sample of the means by which it may be distressed and counteracted.

The friends of the Governor tell us that after the adoption of the Constitution he declared in convention that he would conceive himself bound to maintain the public peace, and to concur in putting the system *into operation*. This was saying as little as possible. Luckily, the public peace was in no danger; and his Excellency, with all his hardihood, would not dare to refuse an official co-operation in putting the government established by the people in *motion*. I attended the debates of the convention, and I could not forbear remarking that the *Governor*,

in the speech alluded to, seemed carefully to confine his assurances to a mere *official compliance*. The impression made upon my mind by the *two* last speeches he delivered was this: that he would, as Governor of the State, in mere official transactions, *conform* to the Constitution; but that he should think it expedient to keep alive the spirit of opposition in the people, until the *amendments proposed*, or another convention (I am not certain which), could be obtained. In this impression I am not singular; there were others who understood him in the same sense.

No reasonable man can doubt that such a sentiment was an unjustifiable one. The United States are to determine on the propriety of amendments, and on the expediency of a convention. Both must be referred to their judgment. If they think both improper or unnecessary, it is the duty of a particular member to acquiesce. This is the fundamental principle of the social compact. To threaten the continuance of an opposition, therefore, till either of those purposes was accomplished, was in every way intemperate and unwarrantable. That there will be a reconsideration of parts of the system, and that certain amendments will be made, I devoutly wish and confidently expect. I have no doubt that the system is susceptible of improvement, and I anxiously desire that every prudent means may be used to conciliate the honest opponents of it. But I reprobate the idea of keeping up an opposition upon principles which derogate from those on which it is, and must necessarily be, sup-

ported. I reprobate the idea of one State giving law to the rest.

But even the official compliance promised by the Governor has hitherto been afforded in a very ungracious and exceptionable manner; in such a manner as indicates secret hostility and a disposition to have the government considered in an unimportant and inferior light. On the 13th of September, 1788, the act for organizing the government was passed by Congress, and it is presumed was communicated without delay. We know that it immediately appeared in the public papers. But it was not until the 13th of October following, that the Governor issued his proclamation for convening the Legislature, and the time appointed for their meeting was less than a month from that which was fixed for the appointment of electors to choose the President and Vice-President. This procrastination appeared at a time extraordinary to everybody, and wore the aspect of *slight* and *neglect* at least. The Governor asserts that it was impracticable to convene the Legislature sooner; but he has not told us why it was so; and I scruple not to affirm, that if a reason is ever assigned, it will be found so flimsy a one, as to discover the insignificant light in which his Excellency was disposed to view and treat the National Government. *Neglect* and *slights* calculated to lessen the opinion of the importance of a thing, and bring it into discredit, are often the most successful weapons by which it can be attacked.

But this is not the only view in which the delay in convening the Legislature is to be considered as

reprehensible. It had the effect of depriving the Legislature itself of the exercise of a right vested in them by the national Constitution, and hazarded an undue postponement of our representation in Congress, which has actually happened. As to the first, the Constitution of the United States leaves the mode of appointing ELECTORS to the discretion of State Legislatures. They may, therefore, refer them to the choice of the people, if they think proper. This has been done in several of the States, and is, in my opinion, a privilege which it is of great importance should be in the hands of the people. Making the usual allowances for want of punctuality in meeting, disagreement in opinion, difficulties in framing new and untried regulations, it may be safely pronounced that the Legislature was assembled too late to refer the choice of electors to the people; whereby they were deprived of an opportunity of exercising a constitutional discretion, and *the people* of a chance of exercising a privilege of very considerable moment to their interests. May it not be justly said, in this instance, that the Governor UNDERTOOK TO THINK for the Legislature? But this is not all. The state of the parties in the Legislature was understood long before they met, and it was to have been foreseen that there would have been a diversity of views in regard to the mode of appointing our national representatives, and consequently delays in agreeing upon any. By not calling the Legislature early enough to allow time for overcoming these impediments, it happens, that in a matter in which the two Houses did finally

agree, to wit, the manner of choosing members of the national House of Representatives, the execution has been so greatly procrastinated, that it must be more than a month from the time appointed for the meeting of the body before it can be even ascertained who our representatives are.

There is a further circumstance in which the Governor's conduct subjects him to the suspicion of an intention to embarrass the measures relating to the Constitution.

The Senate having, in very gentle terms, intimated a wish that the Legislature had been more early convened, the Governor, in a very petulant and indecent reply, considering that it was the Executive speaking to a branch of the Legislature, made himself a party on the side of the Assembly in the controversy between the two Houses, and thereby furnished a motive of obstinacy to the one and of irritation to the other. It is well known that, in that controversy, one of the reasons on which the Assembly had chiefly relied in insisting upon the joint ballot was, that it *approached more nearly to an election by the people*; while the Senate held that they were entitled to an equal voice, and that, as being the *peculiar representative*, by our Constitution, of the *great body of the freeholders*, they were bound, by a regard to the interests of that class, as well as to their own rights as a branch of the Legislature, to insist upon the equality they claimed.

The Senate in their speech had observed that, if there had been time, they would have been for referring the choice of electors to the people. The

Governor answers, that it was impracticable to convene the Legislature in time for that object, and intimates a persuasion that the Senate will see the propriety of pursuing their principle, as far as circumstances would permit, by adopting such mode of appointment as should appear *most nearly to approach an election by the people*, adverting to the ground which had been taken by the majority in the Assembly. This intimation of the Governor could not be understood in any other light than as advocating their principle, and could not have failed to have had the effect of confirming them in it, and alienating the Senate, who were indelicately treated, still more from it. There are circumstances which render a hint as intelligible as the most precise and positive expressions.

This species of interference in a question between the two branches of the Legislature was very unbecoming in the Chief Magistrate, and bespoke much more the intemperate partisan than the temperate arbiter of differences prejudicial to the State.

And the inference from the whole of what I have stated is, that the Governor, since the adoption of the Constitution in this State, has manifested the *reverse* of a disposition to afford it a cordial support.

I remain, with great regard,

Yours, etc.,

H. G.

To ———, Esq., Suffolk County.

LETTER XV

March 9, 1789.

DEAR SIR:

The last of the circumstances mentioned by me in my letter of the 20th of February, as evincive of the inimical disposition of the Governor toward the Union, is, that he is unfriendly to the residence of Congress in this city.

This may be inferred from the disrespectful manner in which he has treated that honorable body, aggregately and individually, as detailed in some former letters; and from his fomenting that spirit of party in the Legislature which has left us without a representation in Congress.

But the matter does not rest on this evidence only. I have direct proof that he has held language clearly indicating an opinion in him, real or affected, that it was a disadvantage to the State to have the seat of the Federal Government in it. His objections have been drawn from its pretended tendency to promote luxury and dissipation. He has, I am well informed, talked in this style, among others, to our friend, Judge —, of — County, with some circumstances of aggravation, which, from a regard to decency, I forbear to repeat.

Now, my dear sir, nothing but a rooted hostility to all federal government could have dictated this sentiment in the breast of the Governor. Every man of sense knows that the residence of Congress among us has been a considerable source of wealth to the State; and as to the idle tale of its promoting luxury and dissipation, I believe there has not been

for a number of years past a period of greater frugality than that in which Congress have resided in this city. As far as my observation or information extends, it has made no sensible difference in the style of living, as to the article of expense. The truth must be, that the Governor has supposed that the presence of Congress in the State has had an influence in encouraging the zeal and exertions of the friends to federal government. Thus it appears that the whole system of thinking adopted by the Governor has been manifestly adverse to every thing connected with the Federal Government, and has led him to view all its concerns through a jaundiced medium.

To what can all this be attributed? To what can be ascribed the *regular* and *undeviating* opposition on his part to the measure devised by the joint council of America for strengthening and confirming the Union? How shall we explain the different and inconsistent grounds of opposition taken at different periods? To me, my dear sir, the collective view of his conduct will admit of no other supposition than that he has entertained a project for erecting a system of *State Power*, unconnected with, and in subversion of, the Union. This is my firm and sincere belief; founded upon a long and close attention to the secret and public proceedings of his Excellency. Some of the circumstances which have led to it, I am not at liberty to disclose, because I could not do it without a breach of confidence. Viewing in the light I do the conduct of the Governor, I consider it as a sacred duty which I owe to the country, to ad-

wise all those with whom I have any connection or intercourse, to promote a change. It is possible that the Governor, finding the execution of his schemes impracticable, may have abandoned them. But I conceive a man capable of adopting such views as too dangerous to be trusted at the head of the State. And I should hold it to be the extreme of credulity and weakness to confide in any assurances of amendment which his friends, to answer a present purpose, may be induced to give.

With unalterable regard,
I remain yours,

H. G.

To ———, Esq., Suffolk County.

LETTER XVI

April 9, 1789.

DEAR SIR:

In mine of the 25th of February last, I observed that there were reasons to conclude that the Governor's conduct, immediately after the evacuation of this city, had been influenced by considerations of those who were at the time advocates for persecution, which in some measure involved him in their policy; and in confirmation of this idea, I mentioned some circumstances, as they then presented themselves to my memory, which had attended the suppression of a proclamation issued by the council for the temporary government of the southern district, in consequence of certain irregularities committed in this city by some of the persons alluded to.¹

¹ See the first address to the Albany Supervisors.

You have no doubt seen in the papers Mr. Willet's statement of this affair, and the correspondence which ensued between that gentleman and myself.

Pursuant to the assurance contained in my letter to Mr. Willet, I shall now disclose to you the result of the inquiries I have made. It has turned out as was to have been apprehended. Neither of the gentlemen to whom I have applied has a distinct recollection of particulars. One of them indeed recollects little more than that he was a good deal displeased with the transaction. The other has a perfect remembrance of some circumstances, though not of all. Among other things, he well recollects that he was much *dissatisfied* with the Governor's conduct in the affair, and that the impression which he had at the time was, and *constantly since* has been, that there had been on the part of the Governor an undue and improper acquiescence, at least, in the conduct of the persons concerned, in suspending the proclamation. But what the facts or appearances were which produced that impression have now, in a great measure, escaped his memory.¹

Thus stands the affair. The investigation has not weakened in my mind the evidence that the circumstances attending the suppression of the proclamation were evincive of condescensions on the part of the Governor toward the advocates for persecution, at the period in question, which in some manner involved him in their policy.

¹ Mr. Willet, by applying to the printer, may satisfy himself of the fairness of this representation and of the respectability of the authority on which it is founded.

This, by reference to my letter, you will perceive, was the sole purpose for which the transaction was quoted. I do not insist that the particulars as first stated are accurate. You will observe they are stated with hesitation and uncertainty; but I feel an entire conviction that the aggregate complexion of the affair was such as I have supposed it to be.

I remain with sincere regard,

Dear sir,

Your very humble servant,

H—— G——.

To ——, Esq., Suffolk County.

TAXATION AND FINANCE

TAXATION AND FINANCE

REPORT ON IMPOST DUTY

By the United States in Congress assembled, December 16, 1782.

THE Committee, consisting of Mr. Hamilton, Mr. Madison, and Mr. Fitzsimmons, to whom was referred the letter of the thirtieth of November, from the Honorable William Bradford, Speaker of the lower House of Assembly of the State of Rhode Island, containing, under three heads, the reasons of that State for refusing their compliance with the recommendation of Congress for a duty on imports and prize goods, report:

That they flatter themselves the State, on a reconsideration of the objections they have offered, with a candid attention to the arguments which stand in opposition to them, will be induced to retract their dissent, convinced that the measure is supported on the most solid grounds of equal justice, policy, and general utility. The following observations, contrasted with each head of the objections successively, will furnish a satisfactory answer to the whole.

First Objection.—“That the proposed duty would be unequal in its operation, bearing hardest upon the

most commercial States, and so would press peculiarly hard upon that State which draws its chief support from commerce."

The most common experience, joined to the concurrent opinions of the ablest commercial and political observers, have established, beyond controversy, this general principle: "That every duty on imports is incorporated with the price of the commodity, and ultimately paid by the consumer, with a profit on the duty itself as a compensation to the merchant for the advance of his money."

The merchant considers the duty demanded by the State on the imported article in the same light with freight or any similar charge, and, adding it to the original cost, calculates his profit on the aggregate sum. It may happen that, at particular conjunctures, where the markets are overstocked, and there is a competition among the sellers, this may not be practicable; but, in the general course of trade, the demand for consumption preponderates; and the merchant can with ease indemnify himself, and even obtain a profit on the advance. As a consumer, he pays his share of the duty, but it is no further a burthen upon him. The consequence of the principle laid down is that every class of the community bears its share of the duty in proportion to its consumption; which last is regulated by the comparative wealth of the respective classes, in conjunction with their habits of expense or frugality. The rich and luxurious pay in proportion to their riches and luxury; the poor and parsimonious, in proportion to their poverty and parsimony. A

chief excellence of this mode of revenue is that it preserves a just measure to the abilities of individuals, promotes frugality, and taxes extravagance. The same reasoning, in our situation, applies to the intercourse between two States: if one imports and the other does not, the latter must be supplied by the former. The duty, being transferred to the price of the commodity, is no more a charge on the importing State for what is consumed in the other, than it is a charge on the merchant for what is consumed by the farmer or artificer. Either State will only feel the burthen in a ratio to its consumption; and this will be in a ratio to its population and wealth. What happens between the different classes of the same community, internally, happens between the two States; and as the merchant, in the first case, so far from losing the duty himself, has a profit on the money he advances for that purpose, so the importing State, which, in the second case, is the merchant with respect to the other, is not only reimbursed by the non-importing State, but has a like benefit on the duty advanced.

It is, therefore, the reverse of a just position, that the duty imposed will bear hardest on the most commercial States; it will, if any thing, have a contrary effect, though not in a sufficient degree to justify an objection on the part of the non-importing States. For it is as reasonable that they should allow an advance on the duty paid as on the first cost, freight, or any incidental charge. They have also other advantages in the measure fully equivalent to this disadvantage. Overnice and minute

calculations, in matters of this nature, are inconsistent with national measures, and, in the imperfect state of human affairs, would stagnate all the operations of government. Absolute equality is not to be attained: to aim at it is pursuing a shadow at the expense of the substance; and, in the event, we should find ourselves wider of the mark than if, in the first instance, we were content to approach it with moderation.

Second Objection.—"That the recommendation proposes to introduce into that and the other States, officers unknown and unaccountable to them, and so is against the constitution of the State."

It is not to be presumed that the constitution of any State could mean to define and fix the precise numbers and descriptions of all officers to be permitted in the State, excluding the creation of any new ones, whatever might be the necessity derived from that variety of circumstances incident to all political institutions. The Legislature must always have a discretionary power of appointing officers, not expressly known to the constitution; and this power will include that of authorizing the Federal Government to make the appointments in cases where the general welfare may require it. The denial of this would prove too much: to wit, that the power given by the Confederation to Congress, to appoint all officers in the post-office, was illegal and unconstitutional.

The doctrine advanced by Rhode Island would, perhaps, prove also, that the Federal Government ought to have the appointment of no internal officers

whatever; a position that would defeat all the provisions of the Confederation, and all the purposes of the Union. The truth is that no Federal Constitution can exist without powers that, in their exercise, affect the internal police of the component members. It is equally true that no government can exist without a right to appoint officers for those purposes which proceed from, and concentrate in, itself; and therefore the Confederation has expressly declared that Congress shall have authority to appoint all such "civil officers as may be necessary for managing the general affairs of the United States under their direction." All that can be required is that the Federal Government confine its appointments to such as it is empowered to make by the original act of union, or by the subsequent consent of the parties. Unless there should be express words of exclusion in the constitution of a State, there can be no reason to doubt that it is within the compass of legislative discretion to communicate that authority.

The propriety of doing it upon the present occasion is founded on substantial reasons.

The measure proposed is a measure of necessity. Repeated experiments have shown that the revenue to be raised within these States is altogether inadequate to the public wants. The deficiency can only be supplied by loans. Our applications to the foreign powers, on whose friendship we depend, have had a success far short of our necessities. The next resource is to borrow from individuals. These will neither be actuated by generosity nor reasons of

State. 'T is to their interest alone we must appeal. To conciliate this, we must not only stipulate a proper compensation for what they lend, but we must give security for the performance. We must pledge an ascertained fund; simple and productive in its nature, general in its principle, and at the disposal of a single will. There can be little confidence in a security under the constant revisal of thirteen different deliberatives. It must, once for all, be defined and established on the faith of the States solemnly pledged to each other, and not revocable by any without a breach of the general compact.

It is by such expedients that nations, whose resources are understood, whose reputations and governments are erected on the foundation of ages, are enabled to obtain a solid and extensive credit. Would it be reasonable in us to hope for more easy terms, who have so recently assumed our rank among the nations? Is it not to be expected, that individuals will be cautious in lending their money to a people in our circumstances, and that they will at least require the best security we can give?

We have an enemy vigilant, intriguing, well acquainted with our defects and embarrassments. We may expect that he will make every effort to instil diffidences into individuals; and, in the present posture of our internal affairs, he will have too plausible ground on which to tread. Our necessities have obliged us to embrace measures, with respect to our public credit, calculated to inspire distrust. The prepossessions on this article must naturally be against us, and it is therefore indispensable we

should endeavor to remove them, by such means as will be the most obvious and striking.

It was with these views Congress determined on a general fund; and the one they have recommended must, upon a thorough examination, appear to have fewer inconveniences than any other.

It has been remarked, as an essential part of the plan, that the fund should depend on a single will. This will not be the case, unless the collection, as well as the appropriation, is under the control of the United States; for it is evident, that after the duty is agreed upon, it may, in a great measure, be defeated by an ineffectual mode of levying it. The United States have a common interest in a uniform and equally energetic collection; and not only policy, but justice to all the parts of the Union, designates the utility of lodging the power of making it where the interest is common. Without this, it might, in reality, operate as a very *unequal tax*.

Third Objection.—"That by granting to Congress a power to collect moneys from the commerce of these States, indefinitely as to time and quantity, and for the expenditure of which they are not to be accountable to the States, they would become independent of their constituents; and so the proposed impost is repugnant to the liberty of the United States."

Admitting the principle of this objection to be true, still it ought to have no weight in the present case, because there is no analogy between the principle and the fact.

Firstly. The fund proposed is sufficiently definite

as to time, because it is only co-extensive with the existence of the debt contracted, and to be contracted, in the course of war. Congress are persuaded that it is as remote from the intention of their constituents to perpetuate that debt, as to extinguish it at once by a faithless neglect of providing the means to fulfil the public engagements. Their ability to discharge it in a moderate time, can as little be doubted as their inclination; and the moment that debt ceases, the duty, so far as respects the present provision, ceases with it.

The resolution recommending the duty specifies the object of it to be the discharge of the principal and interest of the debts already contracted, or which may be contracted, on the faith of the United States, for supporting the present war.

Secondly. The rate per cent. is fixed; and it is not at the option of the United States to increase it. Though the product will vary according to the variations in trade, yet, as there is this limitation of the rate, it cannot be properly said to be indefinite as to quantity.

By the Confederation, Congress have an absolute discretion in determining the quantum of revenue requisite for the national expenditure. When this is done, nothing remains for the States, separately, but the mode of raising. No State can dispute the obligation to pay the sum demanded, without a breach of the Confederation; and when the money comes into the treasury, the appropriation is the exclusive province of the Federal Government. This provision of the Confederation (without which it

would be an empty form) comprehends in it the principle, in its fullest latitude, which the objection under consideration treats as repugnant to the liberty of the United States,—to wit, an indefinite power of prescribing the quantity of money to be raised, and of appropriating it when raised.

If it be said that the States, individually, having the collection in their own hands, may refuse a compliance with exorbitant demands, the Confederation will answer, that this is a point of which they have no constitutional liberty to judge. Such a refusal would be an exertion of power, not of right; and the same power which could disregard a requisition made on the authority of the Confederation, might at any time arrest the collection of the duty.

The same kind of responsibility which exists with respect to the expenditure of money furnished in the forms hitherto practised, would be equally applicable to the revenue from the imports.

The truth is, the security intended to the general liberty in the Confederation consists in the frequent election, and in the rotation, of the members of Congress, by which there is a constant and an effectual check upon them. This is the security which the people in every State enjoy against the usurpations of their internal governments; and it is the true source of security in a representative republic. The government, so constituted, ought to have the means necessary to answer the end of its institution. By weakening its hands too much, it may be rendered incapable of providing for the interior harmony or the exterior defence of the State.

The measure in question, if not within the letter, is within the spirit, of the Confederation. Congress, by that, are empowered to borrow money for the use of the United States; and, by implication, to concert the means necessary to accomplish the end. But without insisting upon this argument, if the Confederation has not made proper provision for the exigencies of the States, it will be at all times the duty of Congress to suggest further provisions; and when their proposals are submitted to the unanimous consent of the States, they can never be charged with exceeding the bounds of their trust. Such a consent is the basis and sanction of the Confederation, which expressly, in the thirteenth article, empowers Congress to agree to, and propose, such additional provision.

The remarks hitherto made have had reference, principally, to the future prosecution of the war. There still remains an interesting light in which the subject ought to be viewed.

The United States have already contracted a debt in Europe and in this country, for which their faith is pledged. The capital of this debt can only be discharged by degrees; but a fund for this purpose, and for paying the interest annually, on every principle of policy and justice, ought to be provided. The omission will be the deepest ingratitude and cruelty to a large number of meritorious individuals, who, in the most critical periods of the war, have adventured their fortunes in support of our independence. It would stamp the national character with indelible disgrace.

An annual provision for the purpose will be too precarious. If its continuance and application were certain, it would not afford complete relief. With many, the regular payment of interest by occasional grants would suffice; but with many more it would not. These want the use of the principal itself; and they have a right to it; but since it is not in our power to pay off the principal, the next expedient is to fund the debt, and render the evidences of it negotiable.

Besides the advantage to individuals from this arrangement, the active stock of the nation would be increased by the whole amount of the domestic debt, and of course the abilities of the community to contribute to the public wants; the national credit would revive, and stand hereafter on a secure basis.

This was another object of the proposed duty.

If it be conceded that a similar fund is necessary, it can hardly be disputed that the one recommended is the most eligible. It has been already shown that it affects all parts of the community in proportion to their consumption, and has therefore the best pretensions to equality. It is the most agreeable tax to the people that can be imposed, because it is paid insensibly, and seems to be voluntary.

It may, perhaps, be imagined that it is unfavorable to commerce; but the contrary can easily be demonstrated. It has been seen that it does not diminish the profit of the merchant, and of course can be no diminution of his inducements to trade. It is too moderate in its amount to discourage the consumption of imported goods, and cannot, on that

account, abridge the extent of importations. If it even had this effect, it would be an advantage to commerce, by lessening the proportion of our imports to our exports, and inclining the balance in favor of this country.

The principal thing to be consulted for the advancement of commerce is to promote exports. All impediments to these, either by way of prohibition, or by increasing the prices of native commodities, decreasing by that means their sale and consumption at foreign markets, are injurious. Duties on exports have this operation. For the same reason taxes on possessions and the articles of our own growth or manufacture, whether in the form of a land-tax, excise, or any other, are more hurtful to trade than impost duties. The tendency of all such taxes is to increase the prices of those articles which are the objects of exportation, and to enable others to undersell us abroad. The farmer, if he pays a heavy land-tax, must endeavor to get more for the products of his farm; the mechanic and laborer, if they find the necessaries of life grow dearer by an excise, must endeavor to exact higher wages: and these causes will produce an increase of prices within, and operate against foreign commerce.

It is not, however, to be inferred that the whole revenue ought to be drawn from imports; all extremes are to be rejected. The chief thing to be attended to is that the weight of the taxes fall not too heavily, in the first instance, upon particular parts of the community. A judicious distribution to all kinds of taxable property, is a first principle in

taxation. The tendency of these observations is only to show that taxes on possessions, on articles of our own growth and manufacture, are more prejudicial to trade than duties on imports.

The observations which conclude the letter on which these remarks are made, naturally lead to reflections that deserve the serious attention of every member of the Union. There is a happy mean between too much confidence and excessive jealousy, in which the health and prosperity of a State consist. Either extreme is a dangerous vice. The first is a temptation to men in power, to arrogate more than they have a right to; the latter enervates government, prevents system in the administration, defeats the most salutary measures, breeds confusion in the State, disgusts and discontents among the people, and may eventually prove as fatal to liberty as the opposite temper.

It is certainly pernicious to leave any government in a situation of responsibility disproportioned to its power.

The conduct of the war is intrusted to Congress, and the public expectation turned upon them without any competent means at their command to satisfy the important trust. After the most full and solemn deliberation, under a collective view of all the public difficulties, they recommended a measure which appears to them the corner-stone of the public safety: they see this measure suspended for nearly two years; partially complied with by some of the States; rejected by one of them, and in danger, on that account, to be frustrated; the public

embarrassments every day increasing; the dissatisfaction of the army growing more serious; the other creditors of the public clamoring for justice; both irritated by the delay of measures for their present relief or future security; the hopes of our enemies encouraged to protract the war; the zeal of our friends depressed by an appearance of remissness and want of exertion on our part; Congress harassed; the national character suffering; and the national safety at the mercy of events.

This state of things cannot but be extremely painful to Congress; and appears to your Committee to make it their duty to be urgent, to obviate the evils with which it is pregnant.

Resolved, That Congress agree to the said report.

SPEECH ON THE REVENUE SYSTEM ¹

There appears to me to have been some confusion in the manner of voting on the two preceding clauses of this bill: the first, for granting the impost to the United States, having been carried by a majority of one; and the last, for making the officers employed in the collection accountable to them, having been lost by a much larger majority. I was induced to hope, from the success of the first question, that the second would have met with equal success, as I presume gentlemen who meant to adhere to the act of the last session would have opposed the whole

¹ Delivered in the New York Legislature, 1787.

of the present bill as unnecessary, and those who meant to depart from it would be willing to agree substantially to the system recommended by Congress, as it had been adopted and modified by the other States generally. From the complexion of the votes on the last question, I am obliged to conclude either that I was mistaken in my ideas of the intention of the committee, or that there is some misapprehension, in part, of the members.

It becomes, therefore, necessary—to obviate such misapprehension, if any exists, and to discharge my duty at all events—to lay the subject fully before the committee, and to detail, at large, my reasons for wishing to see the bill, in its present form, prevail.

It is a common practice, in entering upon the discussion of an important subject, to endeavor to conciliate the good-will of the audience to the speaker by professions of disinterestedness and zeal for the public good. The example, however frequent, I shall no further imitate than by making one or two general observations. If, in the public stations I have filled, I have acquitted myself with zeal, fidelity, and disinterestedness; if, in the private walk of life, my conduct has been unstained by any dishonorable act, if it has been uniformly consistent with the rules of integrity, I have a right to the confidence of those to whom I address myself; they cannot refuse it to me without injustice. I am persuaded they will not refuse it to me. If, on the other hand, my public conduct has been in any instance marked with perfidy, duplicity, or with sinister views of any kind; if any imputations, founded

in fact, can be adduced to the prejudice of my private character, I have no claim to the confidence of the committee; nor should I expect it.

Even these observations I should have spared myself, did I not know that, in the rage of party, gross calumnies have been propagated. Some I have traced and detected; there may still be others in secret circulation, with which I am unacquainted. Against the influence of such arts I can have no other shield than the general tenor of my past conduct. If *that* will protect me, I may safely confide in the candor of the committee. To that standard I cheerfully submit.

But, indeed, of what importance is it who is the speaker? 'T is his *reasons* only that concern the committee; if these are good, they owe it to themselves and to their constituents to allow them their full weight.

The first objection (and that which is supposed to have the greatest force) against the principles of the bill is, that it would be unconstitutional to delegate legislative power to Congress. If this objection be founded in truth, there is at once an end of the inquiry. God forbid that we should violate that constitution which is the charter of our rights. But it is our duty to examine dispassionately whether it really stands in our way. If it does not, let us not erect an ideal barrier to a measure which the public good may require.

The first ground of the objection is deduced from that clause of the constitution which declares "that no power shall be exercised over the people of this

State but such as is granted by or derived from them."

This, it is plain, amounts to nothing more than a declaration of that fundamental maxim of republican government, "that all power, mediately or immediately, is derived from the consent of the people," in opposition to those doctrines of despotism which uphold the divine right of kings, or lay the foundations of government in force, conquest, or necessity. It does not at all affect the question how far the Legislature may go in granting power to the United States. A power conferred by the representatives of the people, if warranted by the constitution under which they act, is a power derived from the people. This is not only a plain inference of reason, but the terms of the clause itself seem to have been calculated to let in the principle. The words, "derived from," are added to the words "granted by," as if with design to distinguish an indirect derivation of power from an immediate grant of it. This explanation is even necessary to reconcile the constitution to itself, and to give effect to all its parts, as I hope fully to demonstrate in its proper place.

The next clause of the constitution relied upon, is that which declares that "the supreme legislative power *within this State* shall be vested in a Senate and Assembly." This, it is said, excludes the idea of any other legislative power operating within the State. But the more obvious construction of this clause, and *that* which best consists with the situation and views of the country at this time, with what has been done before and since the formation

of our constitution, and with those parts of the constitution itself which acknowledge the Federal Government, is this: "In the distribution of the different parts of the sovereignty in the *particular* government of this State, the legislative authority shall reside in a Senate and Assembly"; or, in other words, "the legislative authority of the particular government of the State of New York shall be vested in a Senate and Assembly." The framers of the constitution could have had nothing more in view than to delineate the different departments of power in our own State government, and never could have intended to interfere with the formation of such a Constitution for the Union as the safety of the whole might require. The justness of this construction will be further elucidated by that part of the constitution which prescribes, "that the supreme executive authority *of the State* shall be vested in a governor." If the former clause excludes the grant of legislative power, this must equally exclude the grant of the executive power, and the consequence would be that there could be no Federal Government at all.

It will be of no avail to say, that there is a difference in the two cases in the mode of expression: that, in one, the terms of description are "within the State"; in the other, "of the State." In grammar, or good sense, the difference in the phrases constitutes no substantial difference in the meaning, or if it does, it concludes against the objection; for the words, *within this State*, which are applied to the legislative power, have a certain precision that may

be supposed to intend a distinction between that legislative power which is to operate *within this State* only, and that which is to operate upon this State in conjunction with the others. But I lay no stress on this observation. In my opinion the legislative power "*within this State*" or the legislative power "of this State," amount in substance to the same thing, and therefore (as has been already observed) if the constitution prohibits the delegation of legislative power to the Union, it equally prohibits the delegation of executive power—and the Confederacy must then be at an end; for without legislative or executive power, it becomes a nullity.

Unfortunately for the objection, if it proves any thing it proves too much. It proves that the powers of the Union in their present form are an usurpation on the constitution of this State. This will appear not only from the reasoning adduced, but from this further consideration,—that the United States are already possessed of *legislative* as well as *executive* authority. The objects of executive power are of three kinds: to make treaties with foreign nations, to make war and peace, to execute and interpret the laws. This description of the executive power will enable us the more readily to distinguish the legislative; which in general may be defined the power of prescribing rules for the community.

The United States are authorized to require from the several States as much money as they judge necessary for the general purposes of the Union, and to limit the time within which it is to be raised; to call for such a number of troops as they deem requisite

for the common defence in time of war; to establish rules in all cases of capture by sea or land; to regulate the alloy and value of coin, the standard of weights and measures, and to make all laws for the government of the army and navy of the Union. All these are powers of the legislative kind, and are declared by the Confederation to be binding upon all the States.

The first is nothing less than a power of taxing the States in gross, though not in detail; and the last is the power of disposing of the liberty and lives of the citizens of this State, when in arms for the common defence. That the powers enumerated are all, or most of them, of a legislative nature, will not be denied by the law members on the other side of the question. If the constitution forbids the grant of legislative power to the Union, all those authorities are illegal and unconstitutional, and ought to be resumed.

If, on the contrary, those authorities were properly granted, then it follows that the constitution does not forbid the grant of legislative power, and the objection falls to the ground; for there is nothing in the constitution permitting the grant of one kind of legislative authority, and forbidding that of another. The degree or nature of the powers of legislation which it might be proper to confer upon the Federal Government, would in this case be a mere question of prudence and expediency, to be determined by general considerations of utility and safety.

The principle of the objection under considera-

tion would not only subvert the foundation of the Union as now established, would not only render it impossible that any Federal Government could exist, but would defeat some of the provisions of the constitution itself. This last idea deserves particular attention.

The nineteenth clause makes it the duty of the governor "to correspond with the Continental Congress." The twentieth provides "that the judges and chancellor shall hold no other office than delegate to the General Congress"; and the thirtieth directs "that delegates to *represent* this State in the General Congress of the United States of America shall be annually appointed."

Now, sir, I ask, if Congress were to have neither executive nor legislative authority, to what purpose were they to exist? To what purpose were delegates to be annually appointed to that body? To what purpose were these delegates to represent this State? Or how could they be said to represent it at all?

Is not the plain import of this part of the constitution, that they were to *represent this State* in the General Assembly of the United States, for the purpose of managing the common concerns of the Union? And does not this necessarily imply that they were to be clothed with such powers as should be found essential to that object? Does it not amount to a constitutional warrant to the Legislature to confer those powers, of whatever kind they might be?

To answer these questions in the negative would

be to charge the constitution with the absurdity of proposing to itself an *end*, and yet prohibiting the means of accomplishing that end.

The words "to represent this State" are of great latitude, and are of themselves sufficient to convey any power necessary to the conduct and direction of its affairs in connection with the other parts of the Confederacy.

In the interpretation of laws it is admitted to be a good rule to resort to the co-existing circumstances, and collect from thence the intention of the framers of the law. Let us apply this rule to the present case.

In the commencement of the Revolution delegates were sent to meet in Congress with large discretionary powers. In short, generally speaking, with full power "to take care of the republic." In the whole of this transaction the idea of an Union of the colonies was carefully held up. It pervaded all our public acts.

In the Declaration of Independence we find it continued and confirmed. That declaration, after setting forth its motives and causes, proceeds thus: "We, therefore, the representatives of the United States of America in General Congress assembled, appealing to the Supreme Judge of the world for the rectitude of our intentions, do in the name and by the authority of the good people of these colonies, solemnly publish and declare that these United Colonies are, and of right ought to be, free and independent states; that they are absolved from all allegiance to the British Crown, and that all

political connection between them and the state of Great Britain is, and ought to be, totally dissolved; and that, as free and independent states, they have full power to levy war, conclude peace, contract alliances, establish commerce, and do all other acts and things that independent states may of right do."

Hence we see that the Union and Independence of these States are blended and incorporated in one and the same act; which, taken together, clearly imports that the United States had in their origin full power to do all acts and things which independent states may of right do; or, in other words, full power of sovereignty.

Accordingly, we find that upon the authority of that act, only approved by the several States, they did levy war, contract alliances, and exercise other high powers of sovereignty, even to the appointment of a dictator, prior to the present Confederation.

In this situation, and with this plenitude of power, our constitution knows and acknowledges the United States in Congress assembled, and provides for the annual appointment of delegates to represent this State in that body, which, in substance, amounts to a constitutional recognition of the Union, with complete sovereignty.

A government may exist without any formal organization or precise definition of its powers. However improper it might have been that the Federal Government should have continued to exist with such absolute and undefined authority, this does not militate against the position that it did possess such

authority. It only proves the propriety of a more regular formation to ascertain its limits. This was the object of the present Confederation, which is, in fact, an abridgment of the original sovereignty of the Union.

It may be said (for it has been said upon other occasions) that, though the constitution did consider the United States in the light I have described, and left the Legislature at liberty in the first instance to have organized the Federal Government in such a manner as they thought proper, yet that liberty ceased with the establishment of the present Confederacy. The discretion of the Legislature was then determined.

This, upon the face of it, is a subtilty, uncountenanced by a single principle of government, or a single expression of the constitution. It is saying that a general authority given to the Legislature for the permanent preservation and good of the community, has been exhausted and spent by the exercise of a part of that authority. The position is the more destitute of color, because the Confederation, by the express terms of the compact, preserves and continues this power. The last clause of it authorizes Congress to propose, and the States to agree to, such alterations as might be afterward found necessary or expedient.

We see, therefore, that the constitution knows and acknowledges the United States in Congress; that it provides for the annual appointment of delegates to *represent this State* in that body without prescribing the objects or limits of that representation;

that at the time our constitution was framed, the Union existed with full sovereignty; and that therefore the idea of sovereignty in the Union is not incompatible with it. We see, further, that the doctrine contained in the objection against granting legislative power would equally operate against granting executive power, would prove that the powers already vested in the Union are illegal and unconstitutional, would render a confederacy of the States in any form impracticable, and would defeat all those provisions of our own constitution which relate to the United States. I submit it to the committee, whether a doctrine pregnant with such consequences can be true; whether it is not as opposite to our constitution as to the principles of national safety and prosperity; and whether it would not be lamentable if the zeal of opposition to a particular measure should carry us to the extreme of imposing upon the constitution a sense foreign to it, which must embarrass the national councils upon future occasions, when all might agree in the utility and necessity of a different construction.

If the arguments I have used under this head are not well-founded, let gentlemen *come forward and show their fallacy*. Let the subject have a fair and full examination, and let truth, on whatever side it may be, prevail!

Flattering myself it will appear to the committee that the constitution, at least, offers us no impediment, I shall proceed to other topics of objection. The next that presents itself, is a supposed danger to liberty from granting legislative power to Congress.

But, before I enter upon this subject, to remove the aspersions thrown upon that body, I shall give a short history of some material facts relating to the origin and progress of the business. To excite the jealousies of the people, it has been industriously represented as an undue attempt to acquire an increase of power. It has been forgotten, or intentionally overlooked, that, considering it in the strongest light as a proposal to alter the Confederation, it is only exercising a power which the Confederation has in direct terms reposed in Congress, who, as before observed, are, by the 13th article, expressly authorized to propose alterations.

But so far was the measure from originating in improper views of that body, that, if I am rightly informed, it did not originate there at all. It was first suggested by a convention of the four Eastern States and New York, at Hartford, and, I believe, was proposed there by the deputies of this State. A gentleman on our bench, unconnected with Congress, who now hears me (I mean Judge Hobart), was one of them. It was dictated by a principle which *bitter experience then* taught us, and which, in peace or war, will always be found true—that adequate supplies to the Federal treasury can never flow from any system which requires the intervention of thirteen deliberatives between the *call* and the *execution*.

Congress agreed to the measure, and recommended it. This State complied without hesitation. All parts of the government—Senate, Assembly, and Council of Revision—concurred; neither the

constitution nor the public liberty presented any obstacle. The difficulties from these sources are a recent discovery.

So late as the first session of the Legislature, after the evacuation of this city, the governor of the State, in his speech to both Houses, gave a decided countenance to the measure. This he does, though not in expressed terms, yet by implications not to be misunderstood.

The *leading opponents* of the impost, of the present day, have all of them, at other times, either concurred in the measure, in its most exceptionable form, and without the qualifications annexed to it by the proposed bill, or have, by other instances of conduct, contradicted their own hypothesis on the constitution, which professedly forms the main prop of their opposition.

The honorable member in my eye, at the last session, brought in a bill for granting to the United States the power of regulating the trade of the Union. This surely includes more ample legislative authority than is comprehended in the mere power of levying a particular duty. It indeed goes to a prodigious extent, much farther than, on a superficial view, can be imagined. Can we believe that the constitutional objection, if well founded, would so long have passed undiscovered and unnoticed? Or, is it fair to impute to Congress criminal motives for proposing a measure which was first recommended to them by five States, or from persisting in that measure, after the unequivocal experience they have had of the total inefficacy of the mode provided

in the Confederation for supplying the treasury of the Union?

I leave the answer to these questions to the good sense and candor of the committee, and shall return to the examination of the question, how far the power proposed to be conferred upon Congress would be dangerous to the liberty of the people. And here I ask:

Whence can this danger arise? The members of Congress are annually chosen by the members of the several Legislatures. They come together with different habits, prejudices, and interests. They are, in fact, continually changing. How is it possible for a body so composed to be formidable to the liberties of States—several of which are large empires in themselves?

The subversion of the liberty of the States could not be the business of a day. It would at least require time, premeditation, and concert. Can it be supposed, that the members of a body so constituted would be unanimous in a scheme of usurpation? If they were not, would it not be discovered and disclosed? If we could even suppose this unanimity among one set of men, can we believe that all the new members who are yearly sent from one State or another would instantly enter into the same views? Would there not be found one honest man to warn his country of the danger?

Suppose the worst—suppose the combination entered into and continued. The execution would at least announce the design; and the means of defence would be easy. Consider the separate power

of several of these States, and the situation of all. Consider the extent, populousness, and resources of Massachusetts, Virginia, Pennsylvania; I might add, of New York, Connecticut, and other States. Where could Congress find means sufficient to subvert the government and liberties of either of these States? or, rather, where find means sufficient to effect the conquest at all? If an attempt was made upon one, the others, from a sense of common danger, would make common cause; and they could immediately unite and provide for their joint defence.

There is one consideration, of immense force in this question, not sufficiently attended to. It is this—that each State possesses in itself the full powers of government, and can at once, in a regular and constitutional way, take measures for the preservation of its rights. In a single kingdom or state, if the rulers attempt to establish a tyranny, the people can only defend themselves by a tumultuary insurrection; they must run to arms without concert or plan; while the usurpers, clothed with the forms of legal authority, can employ the forces of the State to suppress them in embryo, and before they can have time or opportunity to give system to their opposition. With us, the case is widely different. Each State has a government, completely organized in itself, and can at once enter into a regular plan of defence; with the forces of the community at its command, it can immediately form connections with its neighbors, or even with foreign powers, if necessary.

In a contest of this kind, the body of the people

will always be on the side of the State governments. This will not only result from their love of liberty and regard to their own safety, but from other strong principles of human nature. The State governments operate on those immediate familiar personal concerns to which the sensibility of individuals is awake. The distribution of private justice belonging to them, they must always appear to the senses of the people as the immediate guardians of their rights. They will, of course, have the strongest hold on their attachment, respect, and obedience. Another circumstance will contribute to the same end. Far the greatest number of offices and employments are in the gift of the States separately; the weight of official influence will therefore be in favor of the State governments; and, with all these advantages, they cannot fail to carry the people along with them in every contest with the General Government in which they are not palpably in the wrong, and often when they are. What is to be feared from the efforts of Congress to establish a tyranny, with the great body of the people, under the direction of their State governments, combined in opposition to their views? Must not their attempts recoil upon themselves, and terminate in their own ruin and disgrace? or, rather, would not these considerations, if they were insensible to other motives, for ever restrain them from making such attempts?

The causes taken notice of, as securing the attachment of the people to their local governments, present us with another important truth—the natural

imbecility of federal governments, and the danger that they will never be able to exercise power enough to manage the general affairs of the Union; though the States will have a common interest, yet they will also have a particular interest. For example: as a part of the Union, it will be the interest of every State to pay as little itself, and to let its neighbors pay as much as possible. Particular interests have always more influence upon men than general. The Federal States, therefore, consulting their immediate advantage, may be considered as so many eccentric powers, tending in a contrary direction to the government of the Union; and as they will generally carry the people along with them, the Confederacy will be in continual danger of dissolution. This, Mr. Chairman, is the real rock upon which the happiness of this country is likely to split. This is the point to which our fears and cares should be directed, to guard against this, and not to terrify ourselves with imaginary dangers from the spectre of power in Congress, will be our true wisdom.

But let us examine a little more closely the measure under consideration. What does the bill before us require us to do? Merely to grant duties on imposts to the United States, for the short period of twenty-five years; to be applied to the discharge of the principal and interest of the debts contracted for the support of the late war; the collection of which duties is to be made by officers appointed by the State, but accountable to Congress, according to such general regulations as the United States shall establish, subject to these important checks: that no

citizen shall be carried out of the State for trial; that all prosecutions shall be in our own courts; that no excessive fines or penalties shall be imposed; and that a yearly account of the proceeds and application of the revenue shall be rendered to the Legislature, on failure of which it reserves to itself a right of repealing its grant.

Is it possible for any measure to be better guarded? or is it possible that a grant for such precise objects, and with so many checks, can be dangerous to the public liberty?

Having now, as I trust, satisfactorily shown that the constitution offers no obstacle to the measure, and that the liberty of the people cannot be endangered by it, it remains only to consider it in the view of revenue.

The sole question left for discussion is, whether it be an eligible mode of supplying the Federal treasury or not.

The better to answer this question, it will be of use to examine how far the mode by quotas and requisitions has been found competent to the public exigencies.

The universal delinquency of the States during the war shall be passed over with the bare mention of it. The public embarrassments were a plausible apology for that delinquency; and it was hoped the peace would have produced greater punctuality. The experiment has disappointed that hope to a degree which confounds the least sanguine. A comparative view of the compliances of the several States for the five last years will furnish a striking result.

During that period, as appears by a statement on our files, New Hampshire, North Carolina, South Carolina, and Georgia have paid nothing. I say nothing, because the only actual payment is the trifling sum of about \$7,000 by New Hampshire. South Carolina indeed has credits, but these are merely by way of discount on the supplies furnished by her during the war, in consideration of her peculiar sufferings and exertions while the immediate theatre of it.

Connecticut and Delaware have paid about one third of their requisitions; Massachusetts, Rhode Island, and Maryland, about one half; Virginia about three fifths; Pennsylvania nearly the whole; and New York more than her quota.

These proportions are taken on the specie requisitions; the indents have been very partially paid, and in their present state are of little account.

The payments into the Federal treasury have declined rapidly each year. The whole amount for three years past, in specie, has not exceeded \$1,400,000, of which New York has paid 100 per cent. more than her proportion. This sum, little more than \$400,000 a year, it will readily be conceived, has been exhausted in the support of the civil establishments of the Union, and the necessary guards and garrisons of public arsenals, and on the frontiers; without any surplus for paying any part of the debt, foreign or domestic, principal or interest.

Things are continually growing worse; the last year in particular produced less than two hundred thousand dollars, and that from only two or three

States. Several of the States have been so long unaccustomed to pay, that they seem no longer concerned even about the appearances of compliance.

Connecticut and Jersey have almost formally declined paying any longer. The ostensible motive is the non-concurrence of this State in the impost system. The real one must be conjectured from the fact.

Pennsylvania, if I understand the scope of some late resolutions, means to discount the interest she pays upon her assumption to her own citizens; in which case there will be little coming from her to the United States. This seems to be bringing matters to a crisis.

The pecuniary support of the Federal Government has of late devolved almost entirely upon Pennsylvania and New York. If Pennsylvania refuses to continue her aid, what will be the situation of New York? Are we willing to be the Atlas of the Union? or are we willing to see it perish?

This seems to be the alternative. Is there not a species of political knight-errantry in adhering pertinaciously to a system which throws the whole weight of the Confederation upon this State, or upon one or two more? Is it not our interest, on mere calculations of State policy, to promote a measure which, operating under the same regulations in every State, must produce an equal, or nearly equal, effect everywhere, and oblige all the States to share the common burthen?

If the impost is granted to the United States, with the power of levying it, it must have a propor-

tionate effect in all the States, for the same mode of collection everywhere will have nearly the same return everywhere.

What must be the final issue of the present state of things? Will the few States that now contribute be willing to contribute much longer? Shall we ourselves be long content with bearing the burthen singly? Will not our zeal for a particular system soon give way to the pressure of so unequal a weight? And if all the States cease to pay, what is to become of the Union? It is sometimes asked: Why do not Congress oblige the States to do their duty? But where are the means? Where are the fleets and armies, where the Federal treasury to support those fleets and armies, to enforce the requisitions of the Union? All methods short of coercion, have repeatedly been tried in vain.

Let us now proceed to another most important inquiry. How are we to pay our foreign debt? This, I think, is estimated at about \$7,000,000, which will every year increase with the accumulations of interest. If we pay neither principal nor interest, we not only abandon all pretensions to character as a nation, but we endanger the public peace. However it may be in our power to evade the just demands of our domestic creditors, our foreign creditors must and will be paid.

They have power to enforce their demands, and sooner or later they may be expected to do it. It is not my intention to endeavor to excite the apprehensions of the committee, but I would appeal to their prudence. A discreet attention to the consequences

of national measures is no impeachment of our firmness.

The foreign debt, I say, must sooner or later be paid, and the longer provision is delayed the heavier it must fall at last.

We require about 1,600,000 dollars to discharge the interest and instalments of the present year, about a million annually upon an average, for ten years more, and about 300,000 dollars for another ten years.

The product of the impost may be computed at about a million of dollars annually. It is an increasing fund. This fund would not only suffice for the discharge of the foreign debt, but important operations might be ingrafted upon it towards the extinguishment of the domestic debt.

Is it possible to hesitate about the propriety of adopting a resource so easy in itself and so extensive in its effects?

Here I expect I may be told there is no objection to employing this resource. The act of the last session does it. The only dispute is about the mode. We are willing to grant the *money*, but not the *power* required from us. Money will pay our debts; power may destroy our liberties.

It has been insinuated that nothing but a lust of power would have prevented Congress from accepting the grant in the shape it has already passed the Legislature. This is a severe charge. If true, it ought undoubtedly to prevent our going a step further. But it is easy to show that Congress could not have accepted our grant without removing

themselves further from the object than they now are. To gain one State they must have lost all the others. The grants of every State are accompanied with a condition that similar grants be made by the other States. It is not denied that our act is essentially different from theirs. Their acts give the United States the power of collecting the duty; ours reserves it to the State, and makes it receivable in paper-money.

The immediate consequences of accepting our grant would be a relinquishment of the grants of other States. They must take the matter up anew, and do the work over again to accommodate it to our standard. In order to anchor one State, would it have been wise to set twelve, or at least eleven others, afloat?

It is said, that the States which have granted more would certainly be willing to grant less. They would easily accommodate their acts to that of New York, as more favorable to their own power and security.

But would Massachusetts and Virginia, which have no paper-money of their own, accede to a plan that permitted other States to pay in paper while they paid in specie? Would they consent that their citizens should pay *twenty* shillings in the pound, while the citizens of Rhode Island paid only *four*, the citizens of North Carolina *ten*, and of other States in different degrees of inequality, in proportion to the relative depreciation of their paper? Is it wise, in this State, to cherish a plan that gives such an advantage to the citizens of other States over its own?

The paper-money of the State of New York, in most transactions, is equal to gold and silver; that of Rhode Island is depreciated to five for one; that of North Carolina to two for one; that of South Carolina may perhaps be worth fifteen shillings in the pound.

If the States pay the duties in paper, is it not evident that for every pound of that duty consumed by the citizen of New York he would pay twenty shillings, while the citizen of South Carolina would pay fifteen shillings; of North Carolina, ten shillings; and Rhode Island, only four!

This consideration alone is sufficient to condemn the plan of our grant of last session, and to prove incontestably that the States which are averse to emitting a paper currency, or have it in their power to support one when emitted, would never come into it.

Again, would those States which by their public acts demonstrate a conviction that the powers of the Union require augmentation; which are conscious of energy in their own administration—would they be willing to concur in a plan which left the collection of the duties in the hands of each State; and of course subject to all the inequalities which a more or less vigorous system of collection would produce?

This too is an idea which ought to have great weight with us. We have better habits of government than are to be found in some of the States; and our constitution admits of more energy than the constitution of most of the other States. The

duties, therefore, would be more effectually collected with us than in such States, and this would have a similar effect to the depreciation of the money, in imposing a greater burthen on the citizens of this State.

If any State should incline to evade the payment of the duties, having the collection in its own hands, nothing would be easier than to effect it, and without materially sacrificing appearances.

It is manifest, from this view of the subject, that we have the strongest reasons, as a State, to depart from our own act; and that it would have been highly injudicious in Congress to have accepted it.

If there even had been a prospect of the concurrence of the other States in the plan, how inadequate would it have been to the public exigencies, fettered with the embarrassments of a depreciating paper!

It is to no purpose to say, that the faith of the State was pledged by the act to make the paper equal to gold and silver; and that the other States would be obliged to do the same. What greater dependence can be had on the faith of the States pledged to this measure, than on the faith they pledged in the Confederation sanctioned by a solemn appeal to heaven? If the obligation of faith in one case has had so little influence upon their conduct in respect to the requisitions of Congress, what hope can there be that they would have greater influences in respect to the deficiencies of the paper-money?

There yet remains an important light in which to consider the subject in the way of revenue. It is a

clear point that we cannot carry the duties upon imports to the same extent by separate arrangements as by a general plan—we must regulate ourselves by what we find done in the neighboring States: while Pennsylvania has only two and a half per cent. on her importations, we cannot greatly exceed her. To go much beyond it would injure our commerce in a variety of ways, and would defeat itself. While the ports of Connecticut and Jersey are open to the introduction of goods free from duty, and the conveyance from them to us is so easy—while they consider our imposts as an ungenerous advantage taken of them, which it would be laudable to elude, the duties must be light or they would be evaded. The facility to do it, and the temptation of doing it, would be both so great, that we should collect perhaps less by an increase of the rates than we do now. Already we experience the effects of this situation. But if the duties were to be levied under a common direction, with the same precautions everywhere to guard against smuggling, they might be carried without prejudice to trade to a much more considerable height.

As things now are, we must adhere to the present standard of duties, without any material alterations. Suppose this to produce fifty thousand pounds a year. The duties to be granted to Congress ought, in proportion, to produce double that sum. To this it appears, by a scheme now before us, that additional duties might be imposed for the use of the State, on certain enumerated articles, to the amount of thirty thousand pounds. This would be

an augmentation of our national revenue by indirect taxation to the extent of eighty thousand pounds a year, an immense object in a single State, and which alone demonstrates the good policy of the measure.

It is no objection to say that a great part of this fund will be dedicated to the use of the United States. Their exigencies must be supplied in some way or other. The more is done towards it by means of the impost, the less will be to be done in other modes. If we do not employ that resource to the best account, we must find others in *direct* taxation. And to this are opposed all the habits and prejudices of the community. There is not a farmer in the State who would not pay a shilling in the voluntary consumption of articles on which a duty is paid, rather than a penny imposed immediately on his house and land.

There is but one objection to the measure under consideration that has come to my knowledge, which yet remains to be discussed. I mean the effect it is proposed to have upon our paper currency. It is said the diversion of this fund would leave the credit of the paper without any effectual support.

Though I should not be disposed to put a consideration of this kind in competition with the safety of the Union, yet I should be extremely cautious about doing any thing that might affect the credit of our currency. The Legislature having thought an emission of paper advisable, I consider it my duty as a representative of the people to take

care of its credit. The farmers appeared willing to exchange their produce for it; the merchants on the other hand had large debts outstanding. They supposed that giving a free circulation to the paper would enable their customers in the country to pay, and as they perceived that they would have it in their power to convert the money into produce, they naturally resolved to give it their support.

These causes combined to introduce the money into general circulation, and having once obtained credit, it will now be able to support itself.

The chief difficulty to have been apprehended in respect to the paper, was to overcome the diffidence which the still recent experience of depreciating paper had instilled into men's minds. This, it was to have been feared, would have shaken its credit at its outset, and if it had once begun to sink, it would be no easy matter to prevent its total decline.

The event has, however, turned out otherwise, and the money has been fortunate enough to conciliate the general confidence. This point gained, there need be no apprehensions of its future fate, unless the government should do something to destroy that confidence.

The causes that first gave it credit still operate, and will in all probability continue so to do. The demand for money has not lessened, and the merchant has still the same inducement to countenance the circulation of the paper.

I shall not deny that the outlet which the payment of duties furnished to the merchant was an additional motive to the reception of the paper.

Nor is it proposed to take away this motive. There is now before the House a bill, one object of which is the establishment of a State impost on certain enumerated articles, in addition to that to be granted to the United States. It is computed on very good grounds, that the additional duties would amount to about £30,000, and as they would be payable in paper currency they would create a sufficient demand upon the merchant to leave him, in this respect, substantially the same inducement which he had before. Indeed, independent of this, the readiness of the trading people to take the money can never be doubted, while it will freely command the commodities of the country; for this, to them, is the most important use they can make of it.

But besides the State impost, there must be other taxes: and these will all contribute to create a demand for the money; which is all we now mean when we talk of funds for its support; for there are none appropriated for the redemption of the paper.

Upon the whole, the additional duties will be a competent substitute for those now in existence; and the general good-will of the community towards the paper will be the best security for its credit.

Having now shown, Mr. Chairman, that there is no constitutional impediment to the adoption of the bill; that there is no danger to be apprehended to the public liberty from giving the power in question to the United States; that in view of the revenue the measure under consideration is not only expedient but necessary,—let us turn our attention to the other side of this important subject. Let us ask

ourselves, what will be the consequence of rejecting the bill? What will be the situation of our national affairs if they are left much longer to float in the chaos in which they are now involved?

Can our national character be preserved without paying our debts? Can the Union subsist without revenue? Have we realized the consequences which would attend its dissolution?

If these States are not united under a Federal Government they will infallibly have wars with each other; and their divisions will subject them to all the mischiefs of foreign influence and intrigue. The human passions will never want objects of hostility. The Western territory is an obvious and fruitful source of contest. Let us also cast our eye upon the map of this State, intersected from one extremity to the other by a large navigable river. In the event of a rupture with them, what is to hinder our metropolis from becoming a prey to our neighbors? Is it even supposable that they would suffer it to remain the nursery of wealth to a distinct community?

These subjects are delicate, but it is necessary to contemplate them, to teach us to form a true estimate of our situation.

Wars with each other would beget standing armies—a source of more real danger to our liberties than all the powers that could be conferred upon the representatives of the Union. And wars with each other would lead to opposite alliances with foreign powers, and plunge us into all the labyrinths of European politics.

The Romans, in their progress to universal dominion, when they conceived the project of subduing the refractory spirit of the Grecian republics which composed the famous Achaian League, began by sowing dissensions among them, and instilling jealousies of each other, and of the common head, and finished by making them a province of the Roman empire.

The application is easy: if there are any foreign enemies, if there are any domestic foes to this country, all their arts and artifices will be employed to effect a dissolution of the Union. This cannot be better done than by sowing jealousies of the Federal head, and cultivating in each State an undue attachment to its own power.

FINANCE

FINANCE

FIRST REPORT ON THE PUBLIC CREDIT

Communicated to the House of Representatives, January 14, 1790.

TREASURY DEPARTMENT, January 9, 1790.

THE Secretary of the Treasury, in obedience to the resolution of the House of Representatives of the twenty-first day of September last, has, during the recess of Congress, applied himself to the consideration of a proper plan for the support of the public credit, with all the attention which was due to the authority of the House, and to the magnitude of the object.

In the discharge of this duty, he has felt, in no small degree, the anxieties which naturally flow from a just estimate of the difficulty of the task, from a well-founded diffidence of his own qualifications for executing it with success, and from a deep and solemn conviction of the momentous nature of the truth contained in the resolution under which his investigations have been conducted,—“That an adequate provision for the support of the public credit is a matter of high importance to the honor and prosperity of the United States.”

With an ardent desire that his well-meant endeavors may be conducive to the real advantage of

the nation, and with the utmost deference to the superior judgment of the House, he now respectfully submits the result of his inquiries and reflections to their indulgent construction.

In the opinion of the Secretary, the wisdom of the House, in giving their explicit sanction to the proposition which has been stated, cannot but be applauded by all who will seriously consider and trace, through their obvious consequences, these plain and undeniable truths:

That exigencies are to be expected to occur, in the affairs of nations, in which there will be a necessity for borrowing.

That loans in time of public danger, especially from foreign war, are found an indispensable resource, even to the wealthiest of them.

And that, in a country which, like this, is possessed of little active wealth, or, in other words, little moneyed capital, the necessity for that resource must, in such emergencies, be proportionably urgent.

And as, on the one hand, the necessity for borrowing in particular emergencies cannot be doubted, so, on the other, it is equally evident that, to be able to borrow upon good terms, it is essential that the credit of a nation should be well established.

For, when the credit of a country is in any degree questionable, it never fails to give an extravagant premium, in one shape or another, upon all the loans it has occasion to make. Nor does the evil end here; the same disadvantage must be sustained on whatever is to be bought on terms of future payment.

From this constant necessity of borrowing and buying dear, it is easy to conceive how immensely the expenses of a nation, in a course of time, will be augmented by an unsound state of the public credit.

To attempt to enumerate the complicated variety of mischiefs, in the whole system of the social economy, which proceed from a neglect of the maxims that uphold public credit, and justify the solicitude manifested by the House on this point, would be an improper intrusion on their time and patience.

In so strong a light, nevertheless, do they appear to the Secretary, that, on their due observance, at the present critical juncture, materially depends, in his judgment, the individual and aggregate prosperity of the citizens of the United States; their relief from the embarrassments they now experience; their character as a people; the cause of good government.

If the maintenance of public credit, then, be truly so important, the next inquiry which suggests itself is: By what means is it to be effected? The ready answer to which question is, by good faith; by a punctual performance of contracts. States, like individuals, who observe their engagements are respected and trusted, while the reverse is the fate of those who pursue an opposite conduct.

Every breach of the public engagements, whether from choice or necessity, is, in different degrees, hurtful to public credit. When such a necessity does truly exist, the evils of it are only to be palliated by a scrupulous attention, on the part of the Government, to carry the violation no further than

the necessity absolutely requires, and to manifest, if the nature of the case admit of it, a sincere disposition to make reparation whenever circumstances shall permit. But, with every possible mitigation, credit must suffer, and numerous mischiefs ensue. It is, therefore, highly important, when an appearance of necessity seems to press upon the public councils, that they should examine well its reality, and be perfectly assured that there is no method of escaping from it, before they yield to its suggestions. For, though it cannot safely be affirmed that occasions have never existed, or may not exist, in which violations of the public faith, in this respect, are inevitable; yet there is great reason to believe that they exist far less frequently than precedents indicate, and are oftenest either pretended, through levity or want of firmness; or supposed, through want of knowledge. Expedients often have been devised to effect, consistently with good faith, what has been done in contravention of it. Those who are most commonly creditors of a nation are, generally speaking, enlightened men; and there are signal examples to warrant a conclusion that, when a candid and fair appeal is made to them, they will understand their true interest too well to refuse their concurrence in such modifications of their claims as any real necessity may demand.

While the observance of that good faith, which is the basis of public credit, is recommended by the strongest inducements of political expediency, it is enforced by considerations of still greater authority.

There are arguments for it which rest on the immutable principles of moral obligation. And in proportion as the mind is disposed to contemplate, in the order of Providence, an intimate connection between public virtue and public happiness, will be its repugnancy to a violation of those principles.

This reflection derives additional strength from the nature of the debt of the United States. It was the price of liberty. The faith of America has been repeatedly pledged for it, and with solemnities that give peculiar force to the obligation. There is, indeed, reason to regret that it has not hitherto been kept; that the necessities of the war, conspiring with inexperience in the subjects of finance, produced direct infractions; and that the subsequent period has been a continued scene of negative violation or non-compliance. But a diminution of this regret arises from the reflection, that the last seven years have exhibited an earnest and uniform effort, on the part of the Government of the Union, to retrieve the national credit, by doing justice to the creditors of the nation; and that the embarrassments of a defective Constitution, which defeated this laudable effort, have ceased.

From this evidence of a favorable disposition given by the former Government, the institution of a new one, clothed with powers competent to calling forth the resources of the community, has excited correspondent expectations. A general belief accordingly prevails, that the credit of the United States will quickly be established on the firm foundation of an effectual provision for the existing debt.

The influence which this has had at home is witnessed by the rapid increase that has taken place in the market value of the public securities. From January to November, they rose thirty-three and a third per cent.; and, from that period to this time, they have risen fifty per cent. more; and the intelligence from abroad announces effects proportionably favorable to our national credit and consequence.

It cannot but merit particular attention, that, among ourselves, the most enlightened friends of good government are those whose expectations are the highest.

To justify and preserve their confidence; to promote the increasing respectability of the American name; to answer the calls of justice; to restore landed property to its due value; to furnish new resources, both to agriculture and commerce; to cement more closely the union of the States; to add to their security against foreign attack; to establish public order on the basis of an upright and liberal policy;—these are the great and invaluable ends to be secured by a proper and adequate provision, at the present period, for the support of public credit.

To this provision we are invited, not only by the general considerations which have been noticed, but by others of a more particular nature. It will procure, to every class of the community, some important advantages, and remove some no less important disadvantages.

The advantage to the public creditors, from the increased value of that part of their property which constitutes the public debt, needs no explanation.

But there is a consequence of this, less obvious, though not less true, in which every other citizen is interested. It is a well-known fact, that, in countries in which the national debt is properly funded, and an object of established confidence, it answers most of the purposes of money. Transfers of stock or public debt are there equivalent to payments in specie; or, in other words, stock, in the principal transactions of business, passes current as specie. The same thing would, in all probability, happen here under the like circumstances.

The benefits of this are various and obvious:

First.—Trade is extended by it, because there is a larger capital to carry it on, and the merchant can, at the same time, afford to trade for smaller profits; as his stock, which, when unemployed, brings him an interest from the Government, serves him also as money when he has a call for it in his commercial operations.

Secondly.—Agriculture and manufactures are also promoted by it, for the like reason, that more capital can be commanded to be employed in both; and because the merchant, whose enterprise in foreign trade gives to them activity and extension, has greater means for enterprise.

Thirdly.—The interest of money will be lowered by it; for this is always in a ratio to the quantity of money, and to the quickness of circulation. This circumstance will enable both the public and individuals to borrow on easier and cheaper terms.

And from the combination of these effects, additional aids will be furnished to labor, to industry,

and to arts of every kind. But these good effects of a public debt are only to be looked for, when, by being well funded, it has acquired an adequate and stable value; till then, it has rather a contrary tendency. The fluctuation and insecurity incident to it, in an unfunded state, render it a mere commodity, and a precarious one. As such, being only an object of occasional and particular speculation, all the money applied to it is so much diverted from the more useful channels of circulation, for which the thing itself affords no substitute; so that, in fact, one serious inconvenience of an unfunded debt is, that it contributes to the scarcity of money.

This distinction, which has been little if at all attended to, is of the greatest moment; it involves a question immediately interesting to every part of the community, which is no other than this: Whether the public debt, by a provision for it on true principles, shall be rendered a substitute for money; or whether, by being left as it is, or by being provided for in such a manner as will wound those principles and destroy confidence, it shall be suffered to continue as it is, a pernicious drain of our cash from the channels of productive industry?

The effect which the funding of the public debt, on right principles, would have upon landed property, is one of the circumstances attending such an arrangement, which has been least adverted to, though it deserves the most particular attention. The present depreciated state of that species of property is a serious calamity. The value of cultivated lands, in most of the States, has fallen, since

the Revolution, from twenty-five to fifty per cent. In those farther south, the decrease is still more considerable. Indeed, if the representations continually received from that quarter may be credited, lands there will command no price which may not be deemed an almost total sacrifice. This decrease in the value of lands ought, in a great measure, to be attributed to the scarcity of money; consequently, whatever produces an augmentation of the moneyed capital of the country must have a proportional effect in raising that value. The beneficial tendency of a funded debt, in this respect, has been manifested by the most decisive experience in Great Britain.

The proprietors of lands would not only feel the benefit of this increase in the value of their property, and of a more prompt and better sale, when they had occasion to sell, but the necessity of selling would be itself greatly diminished. As the same cause would contribute to the facility of loans, there is reason to believe that such of them as are indebted would be able, through that resource, to satisfy their more urgent creditors.

It ought not, however, to be expected that the advantages described as likely to result from funding the public debt would be instantaneous. It might require some time to bring the value of stock to its natural level, and to attach to it that fixed confidence which is necessary to its quality as money. Yet the late rapid rise of the public securities encourages an expectation that the progress of stock, to the desirable point, will be much more

expeditious than could have been foreseen. And as, in the meantime, it will be increasing in value, there is room to conclude that it will, from the outset, answer many of the purposes in contemplation. Particularly, it seems to be probable, that from creditors who are not themselves necessitous it will early meet with a ready reception in payment of debts, at its current price.

Having now taken a concise view of the inducements to a proper provision for the public debt, the next inquiry which presents itself is: What ought to be the nature of such a provision? This requires some preliminary discussions.

It is agreed, on all hands, that that part of the debt which has been contracted abroad, and is denominated the foreign debt, ought to be provided for according to the precise terms of the contracts relating to it. The discussions which can arise, therefore, will have reference essentially to the domestic part of it, or to that which has been contracted at home. It is to be regretted that there is not the same unanimity of sentiment on this part as on the other.

The Secretary has too much deference for the opinions of every part of the community not to have observed one, which has more than once made its appearance in the public prints, and which is occasionally to be met with in conversation. It involves this question: Whether a discrimination ought not to be made between original holders of the public securities, and present possessors, by purchase? Those who advocate a discrimination

are for making a full provision for the securities of the former at their nominal value, but contend that the latter ought to receive no more than the cost to them, and the interest. And the idea is sometimes suggested of making good the difference to the primitive possessor.

In favor of this scheme it is alleged that it would be unreasonable to pay twenty shillings in the pound to one who had not given more for it than three or four. And it is added that it would be hard to aggravate the misfortune of the first owner, who, probably through necessity, parted with his property at so great a loss, by obliging him to contribute to the profit of the person who had speculated on his distresses.

The Secretary, after the most mature reflection on the force of this argument, is induced to reject the doctrine it contains, as equally unjust and impolitic; as highly injurious, even to the original holders of public securities; as ruinous to public credit.

It is inconsistent with justice, because, in the first place, it is a breach of contract—a violation of the rights of a fair purchaser.

The nature of the contract, in its origin, is that the public will pay the sum expressed in the security, to the first holder or his assignee. The intent in making the security assignable is, that the proprietor may be able to make use of his property, by selling it for as much as it may be worth in the market, and that the buyer may be safe in the purchase.

Every buyer, therefore, stands exactly in the place of the seller; has the same right with him to the identical sum expressed in the security; and, having acquired that right by fair purchase and in conformity to the original agreement and intention of the Government, his claim cannot be disputed without manifest injustice.

That he is to be considered as a fair purchaser, results from this: whatever necessity the seller may have been under, was occasioned by the Government, in not making a proper provision for its debts. The buyer had no agency in it, and therefore ought not to suffer. He is not even chargeable with having taken an undue advantage. He paid what the commodity was worth in the market, and took the risks of reimbursement upon himself. He, of course, gave a fair equivalent, and ought to reap the benefit of his hazard—a hazard which was far from inconsiderable, and which, perhaps, turned on little less than a revolution in government.

That the case of those who parted with their securities from necessity is a hard one, cannot be denied. But, whatever complaint of injury, or claim of redress, they may have, respects the Government solely. They have not only nothing to object to the persons who relieved their necessities, by giving them the current price of their property, but they are even under an implied condition to contribute to the reimbursement of those persons. They knew that, by the terms of the contract with themselves, the public were bound to pay to those to whom they should convey their title the sums stipulated to be

paid to them; and that, as citizens of the United States, they were to bear their proportion of the contribution for that purpose. This, by the act of assignment, they tacitly engaged to do; and, if they had an option, they could not, with integrity or good faith, refuse to do it, without the consent of those to whom they sold.

But, though many of the original holders sold from necessity, it does not follow that this was the case with all of them. It may well be supposed that some of them did it either through want of confidence in an eventual provision, or from the allurements of some profitable speculation. How shall these different classes be discriminated from each other? How shall it be ascertained, in any case, that the money which the original holder obtained for his security was not more beneficial to him, than if he had held it to the present time, to avail himself of the provision which shall be made? How shall it be known whether, if the purchaser had employed his money in some other way, he would not be in a better situation than by having applied it in the purchase of securities, though he should now receive their full amount? And, if neither of these things can be known, how shall it be determined, whether a discrimination, independent of the breach of contract, would not do a real injury to purchasers; and, if it included a compensation to the primitive proprietors, would not give them an advantage to which they had no equitable pretension?

It may well be imagined, also, that there are not

wanting instances in which individuals, urged by a present necessity, parted with the securities received by them from the public, and shortly after replaced them with others, as an indemnity for their first loss. Shall they be deprived of the indemnity which they have endeavored to secure by so provident an arrangement?

Questions of this sort, on a close inspection, multiply themselves without end, and demonstrate the injustice of a discrimination, even on the most subtle calculations of equity, abstracted from the obligation of contract.

The difficulties, too, of regulating the details of a plan for that purpose, which would have even the semblance of equity, would be found immense. It may well be doubted, whether they would not be insurmountable, and replete with such absurd as well as inequitable consequences, as to disgust even the proposers of the measure.

As a specimen of its capricious operation, it will be sufficient to notice the effect it would have upon two persons, who may be supposed, two years ago, to have purchased, each, securities, at three shillings in the pound, and one of them to retain those bought by him, till the discrimination should take place; the other, to have parted with those bought by him, within a month past, at nine shillings. The former, who had had most confidence in the Government, would, in this case, only receive at the rate of three shillings, and the interest; while the latter, who had had less confidence, would receive, for what cost him the same money, at the rate of nine

shillings, and his representative, standing in his place, would be entitled to a like rate.

The impolicy of a discrimination results from two considerations: one, that it proceeds upon a principle destructive of that quality of the public debt, or the stock of the nation, which is essential to its capacity for answering the purposes of money—that is, the security of transfer; the other, that, as well on this account as because it includes a breach of faith, it renders property in the funds less valuable, consequently induces lenders to demand a higher premium for what they lend, and produces every other inconvenience of a bad state of public credit.

It will be perceived, at first sight, that the transferable quality of stock is essential to its operation as money, and that this depends on the idea of complete security to the transferee, and a firm persuasion that no distinction can, in any circumstances, be made between him and the original proprietor.

The precedent of an invasion of this fundamental principle would, of course, tend to deprive the community of an advantage with which no temporary saving could bear the least comparison.

And it will as readily be perceived that the same cause would operate a diminution of the value of stock in the hands of the first as well as of every other holder. The price which any man who should incline to purchase would be willing to give for it, would be in a compound ratio to the immediate profit it afforded, and the chance of the continuance of his profit. If there was supposed to be

any hazard of the latter, the risk would be taken into the calculation, and either there would be no purchase at all, or it would be at a proportionably less price.

For this diminution of the value of stock every person who should be about to lend to the Government would demand compensation, and would add to the actual difference between the nominal and the market value an equivalent for the chance of greater decrease, which, in a precarious state of public credit, is always to be taken into the account. Every compensation of this sort, it is evident, would be an absolute loss to the Government.

In the preceding discussion of the impolicy of a discrimination, the injurious tendency of it to those who continue to be the holders of the securities they received from the Government has been explained. Nothing need be added on this head, except that this is an additional and interesting light in which the injustice of the measure may be seen. It would not only divest present proprietors, by purchase, of the rights they had acquired under the sanction of public faith, but it would depreciate the property of the remaining original holders. It is equally unnecessary to add any thing to what has been already said to demonstrate the fatal influence which the principle of discrimination would have on the public credit.

But there is still a point of view, in which it will appear perhaps even more exceptionable than in either of the former. It would be repugnant to an express provision of the Constitution of the United

States. This provision is that "all debts contracted and engagements entered into before the adoption of that Constitution, shall be as valid against the United States under it as under the Confederation"; which amounts to a constitutional ratification of the contracts respecting the debt in the state in which they existed under the Confederation. And, resorting to that standard, there can be no doubt that the rights of assignees and original holders must be considered as equal. In exploding thus fully the principle of discrimination, the Secretary is happy in reflecting that he is only the advocate of what has been already sanctioned by the formal and express authority of the Government of the Union in these emphatic terms: "The remaining class of creditors," say Congress, in their circular addressed to the States of the 26th April, 1783, "is composed of such of our fellow-citizens as originally lent to the public the use of their funds, or have since manifested most confidence in their country by receiving transfers from the lenders; and partly of those whose property has been either advanced or assumed for the public service. To discriminate the merits of these several descriptions of creditors would be a task equally unnecessary and invidious. If the voice of humanity pleads more loudly in favor of some than of others, the voice of policy, no less than of justice, pleads in favor of all. A wise nation will never permit those who relieve the wants of their country, or who rely most on its faith, its firmness, and its resources, when either of them is distressed, to suffer by the event."

The Secretary, concluding that a discrimination between the different classes of creditors of the United States cannot, with propriety, be made, proceeds to examine whether a difference ought to be permitted to remain between them and another description of public creditors—those of the States individually. The Secretary, after mature reflection on this point, entertains a full conviction that an assumption of the debts of the particular States by the Union, and a like provision for them as for those of the Union, will be a measure of sound policy and substantial justice.

It would, in the opinion of the Secretary, contribute, in an eminent degree, to an orderly, stable, and satisfactory arrangement of the national finances. Admitting, as ought to be the case, that a provision must be made, in some way or other, for the entire debt, it will follow that no greater revenues will be required whether that provision be made wholly by the United States, or partly by them and partly by the States separately.

The principal question, then, must be whether such a provision cannot be more conveniently and effectually made by one general plan, issuing from one authority, than by different plans, originating in different authorities? In the first case there can be no competition for resources; in the last there must be such a competition. The consequences of this, without the greatest caution on both sides, might be interfering regulations, and thence collision and confusion. Particular branches of industry might also be oppressed by it. The most productive objects of

revenue are not numerous. Either these must be wholly engrossed by one side, which might lessen the efficacy of the provisions by the other, or both must have recourse to the same objects, in different modes, which might occasion an accumulation upon them beyond what they could properly bear. If this should not happen, the caution requisite to avoiding it would prevent the revenue's deriving the full benefit of each object. The danger of interference and of excess would be apt to impose restraints very unfriendly to the complete command of those resources which are the most convenient, and to compel the having recourse to others, less eligible in themselves and less agreeable to the community. The difficulty of an effectual command of the public resources, in case of separate provisions for the debt, may be seen in another, and, perhaps, more striking light. It would naturally happen that different States, from local considerations, would, in some instances, have recourse to different objects, in others to the same objects, in different degrees, for procuring the funds of which they stood in need. It is easy to conceive how this diversity would affect the aggregate revenue of the country. By the supposition, articles which yielded a full supply in some States would yield nothing, or an insufficient product, in others. And hence, the public revenue would not derive the full benefit of those articles from State regulations; neither could the deficiencies be made good by those of the Union. It is a provision of the national Constitution that "all duties, imposts, and excises shall be uniform throughout

the United States." And, as the General Government would be under a necessity, from motives of policy, of paying regard to the duty which may have been previously imposed upon any article, though but in a single State, it would be constrained either to refrain wholly from any further imposition upon such article, where it had been already rated as high as was proper, or to confine itself to the difference between the existing rate and what the article would reasonably bear. Thus the pre-occupancy of an article by a single State would tend to arrest or abridge the impositions of the Union on that article. And as it is supposable that a great variety of articles might be placed in this situation, by dissimilar arrangements of the particular States, it is evident that the aggregate revenue of the country would be likely to be very materially contracted by the plan of separate provisions.

If all the public creditors receive their dues from one source, distributed with an equal hand, their interest will be the same. And, having the same interests, they will unite in the support of the fiscal arrangements of the Government—as these, too, can be made with more convenience where there is no competition. These circumstances combined will insure to the revenue laws a more ready and more satisfactory execution.

If, on the contrary, there are distinct provisions, there will be distinct interests, drawing different ways. That union and concert of views among the creditors, which in every Government is of great importance to their security and to that of public

credit, will not only not exist, but will be likely to give place to mutual jealousy and opposition. And from this cause the operation of the systems which may be adopted, both by the particular States and by the Union, with relation to their respective debts, will be in danger of being counteracted.

There are several reasons which render it probable that the situation of the State creditors would be worse than that of the creditors of the Union, if there be not a national assumption of the State debts. Of these it will be sufficient to mention two: one, that a principal branch of revenue is exclusively vested in the Union; the other, that a State must always be checked in the imposition of taxes on articles of consumption, from the want of power to extend the same regulation to the other States, and from the tendency of partial duties to injure its industry and commerce. Should the State creditors stand upon a less eligible footing than the others, it is unnatural to expect they would see with pleasure a provision for them. The influence which their dissatisfaction might have, could not but operate injuriously, both for the creditors and the credit of the United States. Hence it is even the interest of the creditors of the Union, that those of the individual States should be comprehended in a general provision. Any attempt to secure to the former either exclusive or peculiar advantages, would materially hazard their interests. Neither would it be just that one class of public creditors should be more favored than the other. The objects for which both descriptions of the debt were contracted are in the

main the same. Indeed, a great part of the particular debts of the States has arisen from assumptions by them on account of the Union. And it is most equitable that there should be the same measure of retribution for all. There is an objection, however, to an assumption of the State debts, which deserves particular notice. It may be supposed that it would increase the difficulty of an equitable settlement between them and the United States.

The principles of that settlement, whenever they shall be discussed, will require all the moderation and wisdom of the Government. In the opinion of the Secretary, that discussion, till further lights are obtained, would be premature. All, therefore, which he would now think advisable on the point in question would be that the amount of the debts assumed and provided for should be charged to the respective States to abide an eventual arrangement. This the United States, as assignees to the creditors, would have an indisputable right to do. But, as it might be a satisfaction to the House to have before them some plan for the liquidation of accounts between the Union and its members, which, including the assumption of the State debts, would consist with equity, the Secretary will submit, in this place, such thoughts on the subject as have occurred to his own mind, or been suggested to him, most compatible, in his judgment, with the end proposed.

Let each State be charged with all the money advanced to it out of the treasury of the United States, liquidated according to the specie value at the time of each advance, with interest at six per cent.

Let it also be charged with the amount, in specie value, of all its securities which shall be assumed, with the interest upon them, to the time when interest shall become payable by the United States.

Let it be credited for all moneys paid and articles furnished to the United States, and for all other expenditures during the war, either toward general or particular defence, whether authorized or unauthorized by the United States; the whole liquidated to specie value, and bearing an interest of six per cent. from the several times at which the several payments, advances, and expenditures accrued.

And let all sums of continental money, now in the treasuries of the respective States, which shall be paid into the treasury of the United States, be credited at specie value.

Upon a statement of the accounts according to these principles, there can be little doubt that balances would appear in favor of all the States against the United States.

To equalize the contributions of the States, let each be then charged with its proportion of the aggregate of those balances, according to some equitable ratio, to be devised for that purpose.

If the contributions should be found disproportionate, the result of this adjustment would be, that some States would be creditors, some debtors, to the Union. Should this be the case—as it will be attended with less inconvenience to the United States to have to pay balances to, than to receive them from, the particular States—it may, perhaps, be practicable to effect the former by a second process, in the nature

of a transfer of the amount of the debts of debtor States, to the credit of creditor States, observing the ratio by which the first apportionment shall have been made. This, whilst it would destroy the balances due from the former, would increase those due to the latter; these to be provided for by the United States, at a reasonable interest, but not to be transferable. The expediency of this second process must depend on a knowledge of the result of the first. If the inequalities should be too great, the arrangement may be impracticable, without unduly increasing the debt of the United States. But it is not likely that this would be the case. It is also to be remarked, that though this second process might not, upon the principle of apportionment, bring the thing to the point aimed at, yet it may approach so nearly to it, as to avoid essentially the embarrassment of having considerable balances to collect from any of the States.

The whole of this arrangement to be under the superintendence of commissioners, vested with equitable discretion and final authority. The operation of the plan is exemplified in Schedule A.

The general principle of it seems to be equitable: for it appears difficult to conceive a good reason why the expenses for the particular defence of a part, in a common war, should not be a common charge, as well as those incurred professedly for the general defence. The defence of each part is that of the whole; and unless all the expenditures are brought into a common mass, the tendency must be to add to the calamities suffered, by being the most exposed to

the ravages of war, an increase of burthens. This plan seems to be susceptible of no objection which does not belong to every other, that proceeds on the idea of a final adjustment of accounts. The difficulty of settling a ratio is common to all. This must, probably, either be sought for in the proportions of the requisitions during the war, or in the decision of commissioners, appointed with plenary power. The rule prescribed in the Constitution, with regard to representation and direct taxes, would evidently not be applicable to the situation of parties during the period in question. The existing debt of the United States is excluded from the computation, as it ought to be, because it will be provided for out of a general fund. The only discussion of a preliminary kind which remains, relates to the distinctions of the debt into principal and interest. It is well known that the arrears of the latter bear a large proportion to the amount of the former. The immediate payment of these arrears is evidently impracticable; and a question arises, What ought to be done with them?

There is good reason to conclude, that the impressions of many are more favorable to the claim of the principal, than to that of the interest; at least so far as to produce an opinion, that an inferior provision might suffice for the latter.

But, to the Secretary, this opinion does not appear to be well founded. His investigations of the subject have led him to a conclusion, that the arrears of interest have pretensions at least equal to the principal.

The liquidated debt, traced to its origin, falls under two principal discriminations. One relating to loans, the other to services performed and articles supplied. The part arising from loans was at first made payable at fixed periods, which have long since elapsed, with an early option to lenders, either to receive back their money at the expiration of those periods, or to continue it at interest, till the whole amount of continental bills circulating should not exceed the sum in circulation at the time of each loan. This contingency, in the sense of the contract, never happened; and the presumption is, that the creditors preferred continuing their money indefinitely at interest to receiving it in a depreciated and depreciating state.

The other parts of it were chiefly for objects which ought to have been paid for at the time—that is, when the services were performed, or the supplies furnished; and were not accompanied with any contract for interest.

But by different acts of Government and Administration, concurred in by the creditors, these parts of the debt have been converted into a capital, bearing an interest of six per cent. per annum, but without any definite period of redemption. A portion of the Loan Office debt has been exchanged for new securities of that import; and the whole of it seems to have acquired that character after the expiration of the periods prefixed for repayment. If this view of the subject be a just one, the capital of the debt of the United States may be considered in the light of an annuity at the rate of six per cent. per

annum, redeemable at the pleasure of the Government by payment of the principal: for it seems to be a clear position, that, when a Government contracts a debt payable with interest, without any precise time being stipulated or understood for payment of the capital, that time is a matter of pure discretion with the Government, which is at liberty to consult its own convenience respecting it, taking care to pay the interest with punctuality.

Wherefore, as long as the United States should pay the interest of their debt, as it accrued, their creditors would have no right to demand the principal. But with regard to the arrears of interest, the case is different. These are now due, and those to whom they are due, have a right to claim immediate payment. To say that it would be impracticable to comply, would not vary the nature of the right. Nor can this idea of impracticability be honorably carried further than to justify the proposition of a new contract, upon the basis of a commutation of that right for an equivalent. This equivalent, too, ought to be a real and fair one. And what other fair equivalent can be imagined for the detention of money, but a reasonable interest? Or what can be the standard of that interest, but the market rate, or the rate which the Government pays in ordinary cases?

From this view of the matter, which appears to be the accurate and true one, it will follow that the arrears of interest are entitled to an equal provision with the principal of the debt.

The result of the foregoing discussion is this: That

there ought to be no discrimination between the original holders of the debt, and present possessors by purchase; that it is expedient there should be an assumption of the State debts by the Union; and that the arrears of interest should be provided for on an equal footing with the principal.

The next inquiry, in order, toward determining the nature of a proper provision, respects the quantum of the debt, and present rates of interest.

The debt of the Union is distinguishable into foreign and domestic.

The foreign debt, as stated in Schedule B,	
amounts to, principal	\$10,070,307 00
Bearing an interest of four, and partly an	
interest of five per cent.	
Arrears of interest to the last of Decem-	
ber, 1789	1,640,071 62
	<hr/>
Making, together	\$11,710,378 62

The domestic debt may be subdivided into liquidated and unliquidated; principal and interest.

The principal of the liquidated part, as	
stated in Schedule C, amounts to	\$27,383,917 74
Bearing an interest of six per cent.	
The arrears of interest, as stated in the	
Schedule D, to the end of 1790,	
amount to	13,030,168 20
	<hr/>
Making, together	\$40,414,085 94

This includes all that has been paid in indents (except what has come into the treasury of the United

States), which, in the opinion of the Secretary, can be considered in no other light than as interest due.

The unliquidated part of the domestic debt, which consists chiefly of the continental bills of credit, is not ascertained, but may be estimated at 2,000,000 dollars.

These several sums constitute the whole of the debt of the United States, amounting together to \$54,124,464.56. That of the individual States is not equally well ascertained. The Schedule E shows the extent to which it has been ascertained by returns, pursuant to the orders of the House of the 21st September last; but this not comprehending all the States, the residue must be estimated from less authentic information. The Secretary, however, presumes that the total amount may be safely stated at twenty-five millions of dollars, principal and interest. The present rate of interest in the States' debt is, in general, the same with that of the domestic debt of the Union.

On the supposition that the arrears of interest ought to be provided for, on the same terms with the principal, the annual amount of the interest, which, at the existing rates, would be payable on the entire mass of the public debt, would be:

On the foreign debt, computing the interest on the principal, as it stands, and allowing four per cent. on the arrears of interest	\$ 542,599 66
On the domestic debt, including that of States	4,044,845 15
Making, together	<u>\$4,587,444 81</u>

The interesting problem now occurs: Is it in the power of the United States, consistently with those prudential considerations which ought not to be overlooked, to make a provision equal to the purpose of funding the whole debt, at the rates of interest which it now bears, in addition to the sum which will be necessary for the current service of the Government?

The Secretary will not say that such a provision would exceed the abilities of the country, but he is clearly of opinion that to make it would require the extension of taxation to a degree and to objects which the true interest of the public creditors forbids. It is, therefore, to be hoped, and even to be expected, that they will cheerfully concur in such modifications of their claims, on fair and equitable principles, as will facilitate to the Government an arrangement substantial, durable, and satisfactory to the community. The importance of the last characteristic will strike every discerning mind. No plan, however flattering in appearance, to which it did not belong, could be truly entitled to confidence.

It will not be forgotten that exigencies may, ere long, arise, which would call for resources greatly beyond what is now deemed sufficient for the current service; and that, should the faculties of the country be exhausted, or even strained, to provide for the public debt, there could be less reliance on the sacredness of the provision. But while the Secretary yields to the force of these considerations, he does not lose sight of those fundamental principles of good faith which dictate that every practicable

exertion ought to be made, scrupulously to fulfil the engagements of the Government; that no change in the rights of its creditors ought to be attempted without their voluntary consent; and that this consent ought to be voluntary in fact as well as in name. Consequently, that every proposal of a change ought to be in the shape of an appeal to their reason and to their interest, not to their necessities. To this end it is requisite that a fair equivalent should be offered for what may be asked to be given up, and unquestionable security for the remainder. Without this, an alteration consistently with the credit and honor of the nation would be impracticable.

It remains to see what can be proposed in conformity to these views.

It has been remarked that the capital of the debt of the Union is to be viewed in the light of an annuity, at the rate of six per cent. per annum, redeemable at the pleasure of the Government by payment of the principal. And it will not be required that the arrears of interest should be considered in a more favorable light. The same character, in general, may be applied to the debts of the individual States.

This view of the subject admits that the United States would have it in their power to avail themselves of any fall in the market rate of interest for reducing that of the debt.

This property of the debt is favorable to the public, unfavorable to the creditor, and may facilitate an arrangement for the reduction of interest upon the basis of a fair equivalent.

Probabilities are always a rational ground of

contract. The Secretary conceives that there is good reason to believe, if effectual measures are taken to establish public credit, that the Government rate of interest in the United States will, in a very short time, fall at least as low as five per cent.; and that, in a period not exceeding twenty years, it will sink still lower, probably to four. There are two principal causes which will be likely to produce this effect: one, the low rate of interest in Europe; the other, the increase of the moneyed capital of the nation by the funding of the public debt.

From three to four per cent. is deemed good interest in several parts of Europe. Even less is deemed so in some places; and it is on the decline, the increasing plenty of money continually tending to lower it. It is presumable, that no country will be able to borrow of foreigners upon better terms than the United States, because none can, perhaps, afford so good security. Our situation exposes us, less than that of any other nation, to those casualties which are the chief causes of expense; our encumbrances, in proportion to our real means, are less, though these cannot immediately be brought so readily into action; and our progress in resources, from the early state of the country, and the immense tracts of unsettled territory, must necessarily exceed that of any other. The advantages of this situation have already engaged the attention of the European money-lenders, particularly among the Dutch. And as they become better understood, they will have the greater influence. Hence, as large a proportion of the cash of Europe as may be wanted will be, in a

certain sense, in our market, for the use of Government. And this will naturally have the effect of a reduction of the rate of interest, not indeed to the level of the places which send their money to market, but to something much nearer to it than our present rate.

The influence which the funding of the debt is calculated to have in lowering interest has been already remarked and explained. It is hardly possible that it should not be materially affected by such an increase of the moneyed capital of the nation as would result from the proper funding of seventy millions of dollars. But the probability of a decrease in the rate of interest acquires confirmation from facts which existed prior to the Revolution. It is well known that, in some of the States, money might, with facility, be borrowed, on good security, at five per cent., and, not unfrequently, even at less.

The most enlightened of the public creditors will be most sensible of the justness of this view of the subject, and of the propriety of the use which will be made of it. The Secretary, in pursuance of it, will assume, as a probability sufficiently great to be a ground of calculation, both on the part of the Government and of its creditors, that the interest of money in the United States will, in five years, fall to five per cent., and, in twenty, to four. The probability, in the mind of the Secretary, is rather that the fall may be more rapid and more considerable; but he prefers a mean, as most likely to engage the assent of the creditors, and more equitable in itself;

because it is predicated on probabilities, which may err on one side as well as on the other.

Premising these things, the Secretary submits to the House the expediency of proposing a loan, to the full amount of the debt, as well of the particular States as of the Union, upon the following terms:

First. That, for every hundred dollars subscribed, payable in the debt (as well interest as principal), the subscriber be entitled, at his option, either to have two thirds funded at an annuity or yearly interest of six per cent., redeemable at the pleasure of the Government by payment of the principal, and to receive the other third in lands in the Western territory, at the rate of twenty cents per acre; or to have the whole sum funded at an annuity or yearly interest of four per cent., irredeemable by any payment exceeding five dollars per annum, on account both of principal and interest, and to receive, as a compensation for the reduction of interest, fifteen dollars and eighty cents, payable in lands, as in the preceding case; or to have sixty-six dollars and two thirds of a dollar funded immediately, at an annuity or yearly interest of six per cent., irredeemable by any payment exceeding four dollars and two thirds of a dollar per annum, on account both of principal and interest, and to have, at the end of ten years, twenty-six dollars and eighty-eight cents funded at the like interest and rate of redemption; or to have an annuity, for the remainder of life, upon the contingency of fixing to a given age, not less distant than ten years, computing interest at four per cent.; or to have an annuity for the remainder of life, upon the

contingency of the survivorship of the younger of two persons, computing interest in this case also at four per cent.

In addition to the foregoing loan, payable wholly in the debt, the Secretary would propose that one should be opened for ten millions of dollars, on the following plan:

That, for every hundred dollars subscribed, payable one half in specie and the other half in debt (as well principal as interest), the subscriber be entitled to an annuity or yearly interest of five per cent., irredeemable by any payment exceeding six dollars per annum, on account both of principal and interest.

The principles and operation of these different plans may now require explanation.

The first is simply a proposition for paying one third of the debt in land, and funding the other two thirds at the existing rate of interest and upon the same terms of redemption to which it is at present subject.

Here is no conjecture, no calculation of probabilities. The creditor is offered the advantage of making his interest principal, and he is asked to facilitate to the Government an effectual provision for his demands, by accepting a third part of them in land, at a fair valuation.

The general price at which the Western lands have been heretofore sold, has been a dollar per acre in public securities; but, at the time the principal purchases were made, these securities were worth, in the market, less than three shillings in the pound. The nominal price, therefore, would not be the proper

standard, under present circumstances, nor would the precise specie value then given be a just rule; because, as the payments were to be made by instalments, and the securities were, at the times of the purchases, extremely low, the probability of a moderate rise must be presumed to have been taken into the account.

Twenty cents, therefore, seems to bear an equitable proportion to the two considerations of value at the time and likelihood of increase.

It will be understood that, upon this plan, the public retains the advantage of availing itself of any fall in the market rate of interest, for reducing that upon the debt; which is perfectly just, as no present sacrifice, either in the quantum of the principal, or in the rate of interest, is required from the creditor.

The inducement to the measure is, the payment of one third of the debt in land. The second plan is grounded upon the supposition that interest, in five years, will fall to five per cent.; in fifteen more, to four. As the capital remains entire, but bearing an interest of four per cent. only, compensation is to be made to the creditor for the interest of two per cent. per annum for five years, and of one per cent. per annum for fifteen years, to commence at the distance of five years. The present value of these two sums or annuities, computed according to the terms of the supposition, is, by strict calculation, fifteen dollars and the seven hundred and ninety-two thousandth part of a dollar—a fraction less than the sum proposed.

The inducements of the measure here, are the

reduction of interest to a rate more within the compass of a convenient provision, and the payment of the compensation in lands.

The inducements to the individual are, the accommodation afforded to the public; the high probability of a complete equivalent; the chance even of gain, should the rate of interest fall, either more speedily or in a greater degree than the calculation supposes. Should it fall to five per cent. sooner than five years, should it fall lower than five before the additional fifteen were expired, or should it fall below four previous to the payment of the debt, there would be, in each case, an absolute profit to the creditor. As his capital will remain entire, the value of it will increase with every decrease of the rate of interest.

The third plan proceeds upon the like supposition of a successive fall in the rate of interest, and upon that supposition offers an equivalent to the creditor: One hundred dollars, bearing an interest of six per cent. for five years, or five per cent. for fifteen years, and thenceforth of four per cent. (these being the successive rates of interest in the market), is equal to a capital of \$122.510725 parts, bearing an interest of four per cent., which, converted into a capital bearing a fixed rate of interest of six per cent., is equal to \$81.6738166 parts.

The difference between sixty-six dollars and two thirds of a dollar (the sum to be funded immediately) and this last sum is \$15.0172 parts, which, at six per cent. per annum, amounts, at the end of ten years, to \$26.8755 parts—the sum to be funded at the

expiration of that period. It ought, however, to be acknowledged that this calculation does not make allowance for the principle of redemption, which the plan itself includes; upon which principle, the equivalent, in a capital of six per cent., would be, by strict calculation, \$87.50766 parts.

But there are two considerations which induce the Secretary to think that the one proposed would operate more equitably than this: One is, that it may not be very early in the power of the United States to avail themselves of the right of redemption reserved in the plan; the other is, that with regard to the part to be funded at the end of ten years, the principle of redemption is suspended during that time, and the full interest of six per cent. goes on improving at the same rate, which, for the last five years, will exceed the market rate of interest, according to the supposition.

The equivalent is regulated in this plan by the circumstance of fixing the rate of interest higher than it is supposed it will continue to be in the market, permitting only a gradual discharge of the debt, in an established proportion, and consequently preventing advantage being taken of any decrease of interest below the stipulated rate.

Thus the true value of eighty-one dollars and sixty-seven cents, the capital proposed, considered as a perpetuity, and bearing six per cent. interest, when the market rate of interest was five per cent., would be a small fraction more than ninety-eight dollars; when it was four per cent., it would be one hundred and twenty-two dollars and fifty-one cents.

But the proposed capital being subject to gradual redemption, it is evident that its value, in each case, would be somewhat less. Yet, from this may be perceived the manner in which a less capital, at a fixed rate of interest, becomes an equivalent for a greater capital, at a rate liable to variation and diminution.

It is presumable that those creditors who do not entertain a favorable opinion of property in Western lands will give a preference to this last mode of modelling the debt. The Secretary is sincere in affirming that, in his opinion, it will be likely to prove, to the full, as beneficial to the creditor as a provision for his debt upon its present terms.

It is not intended, in either case, to oblige the Government to redeem in the proportion specified, but to secure to it the right of doing so, to avoid the inconvenience of a perpetuity.

The fourth and fifth plans abandon the supposition which is the basis of the two preceding ones, and offer only four per cent. throughout.

The reason of this is, that the payment being deferred, there will be an accumulation of compound interest, in the intermediate period, against the public, which, without a very provident administration, would turn to its detriment, and the suspension of the burthen would be too apt to beget a relaxation of efforts in the meantime. The measure, therefore, its object being temporary accommodation, could only be advisable upon a moderate rate of interest.

With regard to individuals, the inducement will be sufficient at four per cent. There is no disposition

of money, in private loans, making allowance for the usual delays and casualties, which would be equally beneficial as a future provision.

A hundred dollars advanced upon the life of a person of eleven years old would produce an annuity¹—

	Dolls.	Parts.
If commencing at twenty-one, of . . .	10.	346
If commencing at thirty-one, of . . .	18.	803
If commencing at forty-one, of . . .	37.	286
If commencing at fifty-one, of . . .	78.	580

The same sum advanced upon the chance of the survivorship of the younger of two lives, one of the persons being twenty-five, the other thirty years old, would produce, if the younger of the two should survive, an annuity² for the remainder of life, of twenty-three dollars, five hundred and fifty-six parts.

From these instances may readily be discerned the advantages which these deferred annuities afford, for securing a comfortable provision for the evening of life, or for wives who survive their husbands.

The sixth plan also relinquishes the supposition, which is the foundation of the second and third, and offers a higher rate of interest, upon similar terms of redemption, for the consideration of the payment of one half of the loan in specie. This is a plan highly advantageous to the creditors who may be able to make that payment, while the specie itself could be applied in purchases of the debt, upon terms which

¹ See Schedule F.

² See Table, Schedule G.

would fully indemnify the public for the increased interest.

It is not improbable that foreign holders of the domestic debt may embrace this as a desirable arrangement.

As an auxiliary expedient, and by way of experiment, the Secretary would propose a loan upon the principles of a tontine¹—

To consist of six classes, composed respectively of persons of the following ages:

First class, of those of 20 years and under.

Second class, of those above 20, and not exceeding 30.

Third class, of those above 30, and not exceeding 40.

Fourth class, of those above 40, and not exceeding 50.

Fifth class, of those above 50, and not exceeding 60.

Sixth class, of those above 60.

Each share to be two hundred dollars; the number of shares in each class to be indefinite. Persons to be at liberty to subscribe on their own lives, or on those of others nominated by them.

The annuity upon a share in the first class, to be	\$ 8 40
Upon a share in the second	8 65
Upon a share in the third	9 00
Upon a share in the fourth	9 65
Upon a share in the fifth	10 70
Upon a share in the sixth	12 80

¹ See Table, Schedule H.

The annuities of those who die to be equally divided among the survivors, until four fifths shall be dead, when the principle of survivorship shall cease, and each annuitant thenceforth enjoy his dividend as a several annuity during the life upon which it shall depend.

These annuities are calculated on the best life in each class, and at a rate of interest of four per cent., with some deductions in favor of the public. To the advantages which these circumstances present, the cessation of the right of survivorship, on the death of four fifths of the annuitants, will be no inconsiderable addition.

The inducements to individuals are, a competent interest for their money from the outset, secured for life, with a prospect of continual increase, and even of a large profit to those whose fortune it is to survive their associates.

It will have appeared that, in all the proposed loans, the Secretary has contemplated the putting the interest upon the same footing with the principal. That on the debt of the United States, he would have computed to the last of the present year; that on the debt of the particular States, to the last of the year 1791: the reason for which distinction will be seen hereafter.

In order to keep up a due circulation of money, it will be expedient that the interest of the debt should be paid quarter-yearly. This regulation will, at the same time, conduce to the advantage of the public creditors, giving them, in fact, by the anticipation of payment, a higher rate of interest; which may, with

propriety, be taken into the estimate of the compensation to be made to them. Six per cent. per annum, paid in this mode, will truly be worth six dollars and the one hundred and thirty-five thousandth part of a dollar, computing the market interest at the same rate.

The Secretary thinks it advisable to hold out various propositions, all of them compatible with the public interest, because it is, in his opinion, of the greatest consequence that the debt should, with the consent of the creditors, be remoulded into such a shape as will bring the expenditure of the nation to a level with its income. Till this shall be accomplished the finances of the United States will never wear a proper countenance. Arrears of interest, continually accruing, will be as continual a monument, either of inability or of ill faith, and will not cease to have an evil influence on public credit. In nothing are appearances of greater moment than in whatever regards credit. Opinion is the soul of it; and this is affected by appearances as well as realities. By offering an option to the creditors between a number of plans, the change meditated will be more likely to be accomplished. Different tempers will be governed by different views of the subject.

But while the Secretary would endeavor to effect a change in the form of the debt by new loans, in order to render it more susceptible of an adequate provision, he would not think it proper to aim at procuring the concurrence of the creditors by operating upon their necessities.

Hence, whatever surplus of revenue might remain,

after satisfying the interest of the new loans and the demand for the current service, ought to be divided among those creditors, if any, who may not think fit to subscribe to them. But for this purpose, under the circumstance of depending propositions, a temporary appropriation will be most advisable, and the sum must be limited to four per cent., as the revenues will only be calculated to produce in that proportion to the entire debt.

The Secretary confides, for the success of the propositions to be made, on the goodness of the reasons upon which they rest; on the fairness of the equivalent to be offered in each case; on the discernment of the creditors of their true interest, and on their disposition to facilitate the arrangements of the Government, and to render them satisfactory to the community.

The remaining part of the task to be performed is to take a view of the means of providing for the debt, according to the modification of it which is proposed.

On this point the Secretary premises that, in his opinion, the funds to be established ought, for the present, to be confined to the existing debt of the United States; as well because the progressive augmentation of the revenue will be most convenient, as because the consent of the State creditors is necessary to the assumption contemplated; and though the obtaining of that consent may be inferred with great assurance from their obvious interest to give it, yet, till it shall be obtained, an actual provision for the debt would be premature. Taxes could not, with

propriety, be laid for an object which depended on such a contingency.

All that ought now to be done respecting it is to put the matter in an effectual train for a future provision. For which purpose the Secretary will, in the course of this report, submit such propositions as appear to him advisable.

The Secretary now proceeds to a consideration of the necessary funds.

It has been stated that the debt of the United States consists of the foreign debt, amounting, with arrears of interest, to	\$11,710,378 62
And the domestic debt, amounting, with like arrears, computed to the end of the year 1790, to	<u>42,414,085 94</u>
Making, together	\$54,124,464 56

The interest on the domestic debt is computed to the end of this year, because the details of carrying any plan into execution will exhaust the year.

The annual interest of the foreign debt has been stated at	\$ 542,599 66
And the interest on the domestic debt, at four per cent., would amount to	<u>1,696,563 43</u>
Making, together	\$2,239,163 09

Thus, to pay the interest of the foreign debt, and to pay four per cent. on the whole of the domestic debt, principal and interest, forming a new capital, will require a yearly income of \$2,239,163.09—the

sum which, in the opinion of the Secretary, ought now to be provided, in addition to what the current service will require.

For, though the rate of interest proposed by the third plan exceeds four per cent. on the whole debt and the annuities on the tontine will also exceed four per cent. on the sums which may be subscribed; yet, as the actual provision for a part is in the former case suspended, as measures for reducing the debt by purchases may be advantageously pursued, and as the payment of the deferred annuities will of course be postponed, four per cent. on the whole will be a sufficient provision.

With regard to the instalments of the foreign debt, these, in the opinion of the Secretary, ought to be paid by new loans abroad. Could funds be conveniently spared from other exigencies for paying them, the United States could illy bear the drain of cash, at the present juncture, which the measure would be likely to occasion.

But to the sum which has been stated for payment of the interest must be added a provision for the current service. This the Secretary estimates at six hundred thousand dollars,¹ making, with the amount of the interest, two millions eight hundred and thirty-nine thousand one hundred and sixty-three dollars and nine cents.

This sum may, in the opinion of the Secretary, be obtained from the present duties on imports and tonnage, with the additions which, without any possible disadvantage, either to trade or agriculture,

¹ See Schedule I.

may be made on wines, spirits (including those distilled within the United States), teas, and coffee.

The Secretary conceives that it will be sound policy to carry the duties upon articles of this kind as high as will be consistent with the practicability of a safe collection. This will lessen the necessity, both of having recourse to direct taxation, and of accumulating duties where they would be more inconvenient to trade and upon objects which are more to be regarded as necessaries of life.

That the articles which have been enumerated will, better than most others, bear high duties, can hardly be a question. They are all of them in reality luxuries; the greatest part of them foreign luxuries; some of them, in the excess in which they are used, pernicious luxuries. And there is, perhaps, none of them which is not consumed in so great abundance as may justly denominate it a source of national extravagance and impoverishment. The consumption of ardent spirits, particularly, no doubt very much on account of their cheapness, is carried to an extreme which is truly to be regretted, as well in regard to the health and morals as to the economy of the community.

Should the increase of duties tend to a decrease of the consumption of those articles, the effect would be in every respect desirable. The saving which it would occasion would leave individuals more at their ease, and promote a favorable balance of trade. As far as this decrease might be applicable to distilled spirits, it would encourage the substitution of

cider and malt liquors, benefit agriculture, and open a new and productive source of revenue.

It is not, however, probable that this decrease would be in a degree which would frustrate the expected benefit to the revenue from raising the duties. Experience has shown that luxuries of every kind lay the strongest hold on the attachments of mankind, which, especially when confirmed by habit, are not easily alienated from them.

The same fact affords a security to the merchant that he is not likely to be prejudiced by considerable duties on such articles. They will usually command a proportional price. The chief things, in this view, to be attended to, are, that the terms of payment be so regulated as not to require inconvenient advances, and that the mode of collection be secure.

To other reasons, which plead for carrying the duties upon the articles which have been mentioned, to as great an extent as they will bear, may be added these: that they are of a nature, from their extensive consumption, to be very productive, and are amongst the most difficult objects of illicit introduction.

Invited by so many motives to make the best use of the resource which these articles afford, the essential inquiry is, in what mode can the duties upon them be most effectually collected?

With regard to such of them as will be brought from abroad, a duty on importation recommends itself by two leading considerations: one is, that, meeting the object at its first entrance into the country, the collection is drawn to a point, and, so

far, simplified; the other is, that it avoids the possibility of interference between the regulations of the United States and those of the particular States.

But a duty, the precautions for the collection of which should terminate with the landing of the goods, as is essentially the case in the existing system, could not, with safety, be carried to the extent which is contemplated.

In that system, the evasion of the duty depends, as it were, on a single risk. To land the goods in defiance of the vigilance of the officers of the customs, is almost the sole difficulty. No future pursuit is materially to be apprehended. And where the inducement is equivalent to the risk, there will be found too many who are willing to run it. Consequently, there will be extensive frauds of the revenue, against which the utmost rigor of penal laws has proved, as often as it has been tried, an ineffectual guard.

The only expedient which has been discovered, for conciliating high duties with a safe collection, is the establishment of a *second* or interior scrutiny.

By pursuing the article, from its importation into the hands of the dealers in it, the risk of detection is so greatly enhanced, that few, in comparison, will venture to incur it. Indeed, every dealer who is not himself the fraudulent importer, then becomes in some sort a sentinel upon him.

The introduction of a system founded on this principle in some shape or other, is, in the opinion of the Secretary, essential to the efficacy of every attempt to render the revenues of the United States

equal to their exigencies, their safety, their prosperity, their honor.

Nor is it less essential to the interest of the honest and fair trader. It might even be added, that every individual citizen, besides his share in the general weal, has a particular interest in it. The practice of smuggling never fails to have one of two effects, and sometimes unites them both. Either the smuggler undersells the fair trader, as, by saving the *duty*, he can afford to do, and makes *it* a charge upon him, or he sells at the increased price occasioned by the duty, and defrauds every man who buys of him, of his share of what the public ought to receive; for it is evident that the loss falls ultimately upon the citizens, who must be charged with other taxes to make good the deficiency and supply the wants of the State.

The Secretary will not presume that the plan which he shall submit to the consideration of the House is the best that could be devised. But it is the one which has appeared to him freest from objections, of any that has occurred, of equal efficacy. He acknowledges, too, that it is susceptible of improvement, by other precautions in favor of the revenue, which he did not think it expedient to add. The chief outlines of the plan are not original; but it is no ill recommendation of it, that it has been tried with success.

The Secretary accordingly proposes—

That the duties heretofore laid upon wines, distilled spirits, teas, and coffee, should, after the last day of May next, cease; and that, instead of them, the following duties be laid:

Upon every gallon of Madeira wine, the quality of London particular, thirty-five cents.

Upon every gallon of other Madeira wine, thirty cents.

Upon every gallon of Sherry, twenty-five cents.

Upon every gallon of other wine, twenty cents.

Upon every gallon of distilled spirits more than ten per cent. below proof, according to Dicas' hydrometer, twenty cents.

Upon every gallon of those spirits under five and not more than ten per cent. below proof, according to the same hydrometer, twenty-one cents.

Upon every gallon of those spirits, of proof, and not more than five per cent. below proof, according to the same hydrometer, twenty-two cents.

Upon every gallon of those spirits, above proof, but not exceeding twenty per cent. according to the same hydrometer, twenty-five cents.

Upon every gallon of those spirits, more than twenty, and not more than forty per cent. above proof, according to the same hydrometer, thirty cents.

Upon every gallon of those spirits, more than forty per cent. above proof, according to the same hydrometer, forty cents.

Upon every pound of Hyson tea, forty cents.

Upon every pound of other green tea, twenty-four cents.

Upon every pound of Souchong and other black teas, except Bohea, twenty cents.

Upon every pound of Bohea tea, twelve cents.

Upon every pound of coffee, five cents.

That, upon spirits distilled within the United States, from molasses, sugar, or other foreign materials, there be paid:

Upon every gallon of those spirits, more than ten per cent. below proof, according to Dicas' hydrometer, eleven cents.

Upon every gallon of those spirits, under five, and not more than ten per cent. below proof, according to the same hydrometer, twelve cents.

Upon every gallon of those spirits, of proof, and not more than five per cent. below proof, according to the same hydrometer, thirteen cents.

Upon every gallon of those spirits, above proof, but not exceeding twenty per cent. according to the same hydrometer, fifteen cents.

Upon every gallon of those spirits, more than twenty, and not more than forty per cent. above proof, according to the same hydrometer, twenty cents.

Upon every gallon of those spirits, more than forty per cent. above proof, according to the same hydrometer, thirty cents.

That, upon spirits distilled within the United States, in any city, town, or village, from materials of the growth or production of the United States, there be paid:

Upon every gallon of those spirits, more than ten per cent. below proof, according to Dicas' hydrometer, nine cents.

Upon every gallon of those spirits, under five, and not more than ten per cent. below proof, according to the same hydrometer, ten cents.

Upon every gallon of those spirits, of proof, and not more than five per cent. below proof, according to the same hydrometer, eleven cents.

Upon every gallon of those spirits, above proof, but not exceeding twenty per cent. according to the same hydrometer, thirteen cents.

Upon every gallon of those spirits, more than twenty, and not more than forty per cent. above proof, according to the same hydrometer, seventeen cents.

Upon every gallon of those spirits, more than forty per cent. above proof, according to the same hydrometer, twenty-five cents.

That, upon all stills employed in distilling spirits from materials of the growth or production of the United States, in any other place than a city, town, or village, there be paid the yearly sum of sixty cents, for every gallon, English wine measure, of the capacity of each still, including its head.

The Secretary does not distribute the duties on teas into different classes, as has been done in the impost act of the last session; because this distribution depends on considerations of commercial policy, not of revenue. It is sufficient, therefore, for him to remark, that the rates above specified are proposed with reference to the lowest class.

The Secretary, conceiving that he could not convey an accurate idea of the plan contemplated by him, for the collection of these duties, in any mode so effectual as by the draught of a bill for the purpose, begs leave, respectfully, to refer the House to that which will be found annexed to this report,

relatively to the article of distilled spirits; and which, for the better explanation of some of its parts, is accompanied with marginal remarks.

It would be the intention of the Secretary that the duty on wines should be collected upon precisely the same plan with that on imported spirits.

But, with regard to teas and coffee, the Secretary is inclined to think that it will be expedient, till experience shall evince the propriety of going further, to exclude the ordinary right of the officers to visit and inspect the places in which those articles may be kept. The other precautions, without this, will afford, though not complete, considerable security.

It will not escape the observation of the House that the Secretary, in the plan submitted, has taken the most scrupulous care that those citizens upon whom it is immediately to operate, be secured from every species of injury by the misconduct of the officers to be employed. There are not only strong guards against their being guilty of abuses of authority; they are not only punishable, criminally, for any they may commit, and made answerable in damages, to individuals, for whatever prejudice these may sustain by their acts or neglects; but even where seizures are made with probable cause, if there be an acquittal of the articles seized a compensation to the proprietors for the injury their property may suffer, and even for its detention, is to be made out of the public treasury.

So solicitous, indeed, has the Secretary been to obviate every appearance of hardship, that he has

even included a compensation to the dealers for their agency in aid of the revenue.

With all these precautions to manifest a spirit of moderation and justice on the part of the Government; and when it is considered that the object of the proposed system is the firm establishment of public credit; that, on this depends the character, security, and prosperity of the nation; that advantages, in every light important, may be expected to result from it; that the immediate operation of it will be upon an enlightened class of citizens, zealously devoted to good government, and to a liberal and enlarged policy; and that it is peculiarly the interest of the virtuous part of them to co-operate in whatever will restrain the spirit of illicit traffic; there will be perceived to exist the justest ground of confidence that the plan, if eligible in itself, will experience the cheerful and prompt acquiescence of the community.

The Secretary computes the net product of the duties proposed in this report at about one million seven hundred and three thousand four hundred dollars, according to the estimate in Schedule K, which, if near the truth, will, together with the probable product of the duties on imposts and tonnage, complete the sum required.

But it will readily occur, that in so unexplored a field there must be a considerable degree of uncertainty in the data; and that on this account it will be prudent to have an auxiliary resource for the first year in which the interest will become payable, that there may be no possibility of disappointment to the public creditors ere there may be an opportunity of

providing for any deficiency which the experiment may discover. This will, accordingly, be attended to.

The proper appropriation of the funds provided and to be provided seems next to offer itself to consideration.

On this head, the Secretary would propose that the duties on distilled spirits should be applied, in the first instance, to the payment of the interest on the foreign debt.

That, reserving out of the residue of those duties an annual sum of six hundred thousand dollars for the current service of the United States, the surplus, together with the product of the other duties, be applied to the payment of the interest on the new loan, by an appropriation coextensive with the duration of the debt.

And that, if any part of the debt should remain unsubscribed, the excess of the revenue be divided among the creditors of the unsubscribed part by a temporary disposition, with a limitation, however, to four per cent.

It will hardly have been unnoticed that the Secretary has been, thus far, silent on the subject of the Post Office. The reason is, that he has had in view the application of the revenue arising from that source to the purpose of a sinking fund. The Postmaster-General gives it as his opinion that the immediate product of it, upon a proper arrangement, would probably be not less than one hundred thousand dollars. And, from its nature, with good management, it must be a growing, and will be likely

to become, a considerable fund. The Postmaster-General is now engaged in preparing a plan which will be the foundation of a proposition for a new arrangement of the establishment. This, and some other points relative to the subject referred to the Secretary, he begs leave to reserve for a future report.

Persuaded, as the Secretary is, that the proper funding of the present debt will render it a national blessing, yet he is so far from acceding to the position, in the latitude in which it is sometimes laid down, that "public debts are public benefits"—a position inviting to prodigality and liable to dangerous abuse—that he ardently wishes to see it incorporated as a fundamental maxim in the system of public credit of the United States, that the creation of debt should always be accompanied with the means of extinguishment. This he regards as the true secret for rendering public credit immortal. And he presumes that it is difficult to conceive a situation in which there may not be an adherence to the maxim. At least, he feels an unfeigned solicitude that this may be attempted by the United States, and that they may commence their measures for the establishment of credit with the observance of it.

Under this impression, the Secretary proposes that the net product of the Post Office to a sum not exceeding one million of dollars be vested in commissioners, to consist of the Vice-President of the United States, or President of the Senate, the Speaker of the House of Representatives, the Chief Justice,

Secretary of the Treasury, and Attorney-General of the United States, for the time being, in trust; to be applied by them, or any three of them, to the discharge of the existing public debt, either by purchases of stock in the market, or by payments on account of the principal, as shall appear to them most advisable, in conformity to public engagements; to continue so vested until the whole of the debt shall be discharged.

As an additional expedient for effecting a reduction of the debt, and for other purposes, which will be mentioned, the Secretary would further propose, that the same commissioners be authorized, with the approbation of the President of the United States, to borrow, on their credit, a sum not exceeding twelve millions of dollars, to be applied:

First.—To the payment of the interest and instalments of the foreign debt, to the end of the present year, which will require 3,491,932 dollars and 46 cents.

Secondly.—To the payment of any deficiency which may happen in the product of the funds provided for paying the interest of the domestic debt.

Thirdly.—To the effecting a change in the form of such part of the foreign debt as bears an interest of five per cent. It is conceived that for this purpose a new loan at a lower interest may be combined with other expedients. The remainder of this part of the debt, after paying the instalments which will accrue in the course of 1790, will be 3,888,888 dollars and 81 cents.

Fourthly.—To purchase of the public debt, at the

price it shall bear in the market, while it continues below its true value. This measure, which would be, in the opinion of the Secretary, highly dishonorable to the Government if it were to precede a provision for funding the debt, would become altogether unexceptionable after that had been made. Its effect would be in favor of the public creditors, as it would tend to raise the value of stock; and all the difference between its true value and the actual price would be so much clear gain to the public. The payment of foreign interest on the capital to be borrowed for this purpose, should that be a necessary consequence, would not, in the judgment of the Secretary, be a good objection to the measure. The saving, by the operation, would be itself a sufficient indemnity; and the employment of that capital, in a country situated like this, would much more than compensate for it. Besides, if the Government does not undertake this operation, the same inconvenience which the objection in question supposes, would happen in another way, with a circumstance of aggravation. As long, at least, as the debt shall continue below its proper value it will be an object of speculation to foreigners, who will not only receive the interest upon what they purchase, and remit it abroad, as in the case of the loan, but will reap the additional profit of the difference in value. By the Government's entering into competition with them, it will not only reap a part of the profit itself, but will contract the extent, and lessen the extra profit of foreign purchases. That competition will accelerate the rise of stock; and whatever greater

rate this obliges foreigners to pay for what they purchase, is so much clear saving to the nation. In the opinion of the Secretary, and contrary to an idea which is not without patrons, it ought to be the policy of the Government to raise the value of stock to its true standard as fast as possible. When it arrives to that point, foreign speculations (which, till then, must be deemed pernicious, further than as they serve to bring it to that point) will become beneficial. Their money, laid out in this country upon our agriculture, commerce, and manufactures, will produce much more to us than the income they will receive from it.

The Secretary contemplates the application of this money through the medium of a national bank, for which, with the permission of the House, he will submit a plan in the course of the session.

The Secretary now proceeds, in the last place, to offer to the consideration of the House his ideas of the steps which ought, at the present session, to be taken toward the assumption of the State debts.

These are, briefly, that concurrent resolutions of the two Houses, with the approbation of the President be entered into, declaring in substance:

That the United States do assume, and will, at the first session in the year 1791, provide, on the same terms with the present debt of the United States, for all such parts of the debts of the respective States, or any of them, as shall, prior to the first day of January, in the said year, 1791, be subscribed toward a loan to the United States, upon the principles of either of the plans which shall have been adopted

by them, for obtaining a reloan of their present debt.

Provided, that the provision to be made, as aforesaid, shall be suspended, with respect to the debt of any State which may have exchanged the securities of the United States for others issued by itself, until the whole of the said securities shall either be re-exchanged or surrendered to the United States.

And provided, also, that the interest upon the debt assumed, be computed to the end of the year 1791; and that the interest to be paid by the United States commence on the first day of January, 1792.

That the amount of the debt of each State, so assumed and provided for, be charged to such State in account with the United States, upon the same principles upon which it shall be lent to the United States.

That subscriptions be opened for receiving loans of the said debts, at the same times and places, and under the like regulations, as shall have been prescribed in relation to the debt of the United States.

The Secretary has now completed the objects which he proposed to himself to comprise in the present report. He has for the most part omitted details, as well to avoid fatiguing the attention of the House as because more time would have been desirable, even to digest the general principles of the plan. If these should be found right, the particular modifications will readily suggest themselves in the progress of the work.

The Secretary, in the views which have directed his pursuit of the subject, has been influenced, in the

first place, by the consideration that his duty, from the very terms of the resolution of the House, obliged him to propose what appeared to him an adequate provision for the support of the public credit, adapted at the same time to the real circumstances of the United States; and, in the next, by the reflection that measures which will not bear the test of future unbiassed examination, can neither be productive of individual reputation nor (which is of much greater consequence) public honor or advantage.

Deeply impressed, as the Secretary is, with a full and deliberate conviction that the establishment of the public credit, upon the basis of a satisfactory provision for the public debt, is, under the present circumstances of this country, the true desideratum toward relief from individual and national embarrassments; that without it these embarrassments will be likely to press still more severely upon the community; he cannot but indulge an anxious wish that an effectual plan for that purpose may during the present session be the result of the united wisdom of the Legislature.

He is fully convinced that it is of the greatest importance that no further delay should attend the making of the requisite provision: not only because it will give a better impression of the good faith of the country, and will bring earlier relief to the creditors, both which circumstances are of great moment to public credit, but because the advantages to the community, from raising stock, as speedily as possible, to its natural value, will be incomparably greater than any that can result from

its continuance below that standard. No profit which could be derived from purchases in the market, on account of the Government, to any practicable extent, would be an equivalent for the loss which would be sustained by the purchases of foreigners at a low value. Not to repeat, that governmental purchases to be honorable ought to be preceded by a provision. Delay, by disseminating doubt, would sink the price of stock; and, as the temptation to foreign speculations, from the lowness of the price, would be too great to be neglected, millions would probably be lost to the United States.

All of which is humbly submitted.

ALEXANDER HAMILTON,
*Secretary of the Treasury.*¹

¹ There is probably no single State paper in the history of the United States, with the exception of the Emancipation Proclamation, which was of such immense importance, and produced such wide and far-reaching results as Hamilton's first report on the Public Credit. "Finance, my friend," said Gouverneur Morris to John Jay, "all that remains of the American Revolution grounds there." The public debt of that day, a trifle to the present generation, seemed to the country after the Revolution, a mountain which could not be removed. The wretched Confederacy went down to ruin on the financial difficulties. The Union was bankrupt and hastening to dissolution, while foreign powers gloated over the prospect of our coming destruction Hamilton met the question, grasped it, and solved the dire problem. In his first report he embodied the financial policy which organized and brought out our resources, rendered us strong and prosperous at home, established our credit, and made us respected in every money market in Europe. But the first report was far more than a vigorous and able piece of financiering. It was the corner-stone of the Government of the United States, and the foundation of the national movement. Hamilton saw in the debt and its proper treatment the means of binding together the States as a nation by the sure tie of a common interest. This was the end for which he labored. He converted the Constitution into a living organism, founded a policy on which a great party came into being, and, above and beyond all, brought into

To this report were appended several schedules.

A. Being a supposititious statement of accounts between the United States and individual States.

B. A general statement of the Foreign Loans, showing, in abstract, the capital sums borrowed, and the arrearages of interest, to the 31st of December, 1789.

C. Abstract of the Liquidated and Loan-Office Debt of the United States, on the 3d of March, 1789.

D. An estimate of all the interest which will accrue on the Domestic Debt of the United States, from its formation to 31st of December, 1790; of such partial payments as have been made on account thereof, and of the balance which will remain to be provided for, to pay up the interest fully to that period.

E. Abstract of the public debt of the States (therein) mentioned agreeably to accounts transmitted in pursuance of the resolution of the House of Representatives of the 21st of September, 1789.

F. Table, showing the annuity which a person of a given age would be entitled to, during life, from the time he should arrive at a given age, upon the present payment of a hundred dollars, computing interest at four per cent.

G. Table, showing what annuity would be enjoyed by the survivor of only two persons, of certain ages, for the remainder of life, after the determination of life in

vigorous life the national principle which has gone on strengthening and broadening through all our subsequent history. The most cursory reading of the report shows its simplicity, strength, lucidity, and condensation, as well as the masterly financial ability of its author. But to fully appreciate it we must look before and after. We must appreciate the anarchy of the Confederation, the chaotic opposition to order then existing, and contrast all this with the development of the United States which has followed. Studied in this way the first report on the Public Credit assumes its true proportions, and shows the great place which Hamilton fills in our history.

expectation, upon the present payment of one hundred dollars, computing interest at four per cent. per annum, and the duration of life, according to Dr. Halley's tables.

H. Table for a Tontine of Six Classes, the number of lives in each Class being indefinite, calculated on a payment of two hundred dollars by each subscriber, and at a rate of interest of four per cent. The computation on the best life in each Class, and on the supposition that the subscribers to each Class will not be less than the respective numbers specified in the first column.

I. General Estimate for the services of the current year.

K. Estimate of the probable product of the funds proposed for funding the debt, and providing for the current service of the United States, including the present duties on imports and tonnage.—*State Papers—Finance*, vol. i., pp. 26-37.

OPERATIONS OF THE ACT LAYING DUTIES ON IMPORTS

Communicated to the House of Representatives, April 23, 1790.

TREASURY DEPARTMENT, April 22, 1790.

In obedience to the order of the House of Representatives of the 19th day of January last, the Secretary of the Treasury respectfully submits the following report:

FIRST. *As to the act imposing duties on the goods, wares, and merchandise, imported into the United States.*

Section 1. The duties specified in this act, according to this section, took effect throughout the United States from and after the first day of August last.

But as the act for the collection of those duties did not pass till the last of July, it was of course impossible that the officers for carrying it into execution could be appointed, commissioned, and ready to enter upon the execution of their offices, at the day fixed for the commencement of the duties. The custom-houses in the several States were not organized till at different periods, from the fifth of August to some time in September; and in the intervals, several importations took place. In some instances, duties were paid under the State laws, in others none were paid.

The Secretary, conceiving it to be a clear point that the duties imposed by the first-mentioned act accrued as debts to the United States on all goods imported after the day specified for their commencement, and that the regulations prescribed by the collection law were to be considered merely as auxiliary guards for securing their payment, did not think himself at liberty, on grounds of convenience or inconvenience, to waive the claim for them. He has therefore caused it to be made, and has given directions, with a view to a legal decision of the question.

But it is worthy of consideration by the Legislature, whether it be advisable to pursue, or relinquish it. The payment of the duties in this situation has been generally unlooked for, and in most cases must be preceded by a legal determination. The enforcement of the claim would therefore be likely to be thought rigorous, and, in some instances, might be injurious—where merchants may have sold, without

reference in the price to the duty; where factors or agents may have settled accounts with, and paid over the proceeds of goods to, their principals, especially if transient persons; where duties have been paid under the State establishments; in these, and other cases, there might ensue loss or embarrassment. There must also be difficulty in ascertaining the sums which ought to be paid.

The distinctions between distilled spirits are conceived not to be sufficiently diversified or accurate. This has been remarked and a remedy proposed in the plan submitted to the House for the support of the public credit.

There is no general rate prescribed for estimating the draught and tare of those articles which pay duty by weight. The consequence is that different allowances are made at different places according to former usage, and too much is left to discretion.

Unwrought steel is rated at fifty-six cents for 112 lbs., which, upon an average of the cost, is less than five per cent. *ad valorem*. As an enumerated article, it is presumed to have been the intention of the Legislature to rate it higher than five per cent., especially as a higher rate would be in favor of the manufacture of it among ourselves, in which considerable progress has been made, particularly in the State of Pennsylvania.

The information received by the Secretary induces him to consider as questionable, the policy of the duty on pickled fish in its present extent. It is represented that almost the whole of what is brought from Nova Scotia to Massachusetts is re-exported;

and this chiefly to foreign countries. And that, while it forms a considerable article in an intercourse between those places beneficial to Massachusetts, it contributes to the augmentation of her exports.

If this be true it is difficult to discern any advantage in the duty. To the revenue there will be rather loss than profit; as the expense incident to the collection and to the process of the drawback will probably exceed the amount of the duty on the small quantity internally consumed, even taking into the calculation the one per cent. retained as an indemnification for that expense. In a commercial light, as far as it has any operation, it seems to be rather an unfavorable one. The process of paying and drawing back is not without inconveniences; and the unrefunded residue is a tax on the export trade in that article, from which, for the reason assigned, no benefit arises to the public; while the encouragement which it was the object of this regulation to give to the fisheries, loses in a great measure, its effect, by reason of the drawback. And it is suggested by intelligent men that an injurious competition in the branch of the fisheries to which the duty is applicable, is little to be apprehended.

The Secretary, however, does not conceive himself to be possessed with sufficient accuracy of all the facts necessary to a right judgment on this point to be willing to hazard a decisive opinion. He therefore only means to state the circumstances communicated to him, in expectation that the representatives from the part of the Union more immediately affected will

be able, by further lights, to guide the opinion of the House to a proper conclusion.

A discrimination is made by this section in favor of teas brought from China or India in American bottoms. The fifth section allows a discount of ten per cent. on all the duties imposed by this act on goods, wares, and merchandises imported in American bottoms. A question arises whether this discount ought to obtain in respect to the above-mentioned teas. The Secretary presumes, that the better construction is against the allowance, though within the letter of the provision; but an explanation is, perhaps, requisite, to obviate controversy.

All goods, wares, and merchandise, except teas, brought from China or India, otherwise than in American bottoms, are made liable to a duty of twelve and a half per cent. *ad valorem*. But in the clause immediately succeeding, all China ware is rated only at ten per cent. *ad valorem*. A doubt suggests itself whether this article be excepted out of the preceding provision, or be itself subject to an implied exception in favor of the full operation of that provision.

It is suggested that the encouragement intended to our East-India trade, by the duty of twelve and a half per cent. on India goods brought from China in foreign bottoms, will be counteracted by the want of a greater duty than is now laid on the same goods brought from Europe, as competition is more to be apprehended through that channel than from direct importations in foreign bottoms from India. While the Secretary deems it proper to bring this suggestion

into the view of the House, he forbears giving an opinion as to the weight it ought to have. He perceives various advantages in a direct commerce with the East Indies, and is hitherto inclined to believe it merits the patronage of the Government; but the tendency of it is not yet sufficiently developed, to his judgment, to leave him wholly without reserve as to the extent of the encouragement which ought to be given.

Commodities of our own growth or manufacture, carried to a foreign port, and brought back again to the United States, are, by this act, liable to duty. The tendency of this to discourage commercial enterprise recommends the expediency of an exemption upon due proof of identity.

The sea-stores of vessels, the furniture, clothing, and professional apparatus of persons arriving in this country from abroad seem equally liable to duties with goods brought by way of merchandise. They have been in several instances exacted; but the payment is usually accompanied with remonstrance and discontent. If it was not the intent of the Legislature to include such articles, an explanation is necessary. Various considerations plead for exempting them, under proper limitations.

Section 2. From this section it has been doubted whether there be, at present, any duty on hemp. And it has been inferred from the debates to have been the intention of the Legislature to exempt it till after the first of December, 1790; but the construction of the act is different. There is a duty on cotton, as well as hemp, to take place at a future

day. But cotton, in the meantime, is expressly excepted out of the five-per-cent. duty, which impliedly excludes hemp from the like exception. As the act now stands it will be a question, when the duty of sixty cents per hundredweight takes place, whether it be in addition to, or in lieu of, the present duty.

Section 3. Provision is here made for a drawback of the duties on goods exported within twelve months, with an exception of certain kinds of distilled spirits, and a deduction of one per cent.

But there is no provision for entries for exportation; whence it happens that a vessel arriving from a foreign port, with part of her cargo destined for the United States, and other part for some other country, is obliged to pay or secure the payment of the duties on her whole cargo; and in strictness, even to land such articles as require weighing, gauging, or measuring, in order to the ascertaining of the duties. This is complained of as a hardship, and is contrary to the prevailing usage of commercial nations. The Secretary is of opinion that the complaint is well founded, and that it is advisable that entries for exportation, with proper precautions and restrictions, should be authorized. The interests of the revenue can, with advantage, be consulted no further than they are consistent with the necessary freedom and felicity of commercial intercourse.

The allowance of drawbacks does not obviate the subject of complaint. The necessity of advancing the money, or procuring security for the amount of the duties; the necessity of landing those articles which require to be weighed, measured, or gauged

(which must in the first instance be submitted to), are material inconveniences; and the process for obtaining drawbacks is attended with difficulty, casualty, and trouble. There must be a bond given not to re-land the goods, and this bond must be cancelled by certain proofs, which may not, in all cases, be obtainable, but which are, nevertheless, made a pre-requisite to the payment of the drawbacks. Nor can that payment, at any rate, be had, till after the expiration of six months; so that, even where security is given for the amount of the duties, it must often happen that they become payable before parties can be prepared to demand the drawback; and the one per cent. retained is, in every case, a certain loss. These circumstances, to transient persons especially, operate as a grievance.

SECONDLY. *As to the act imposing duties on tonnage.*

The duties mentioned in this act are upon all ships or vessels entered into the United States.

The entry, therefore, is the circumstance which regulates the payment of the duty.

But a doubt has arisen whether the duty ought to be deemed to accrue on every entry, or only on entries from foreign countries.

The construction which has been adopted is, that it accrues on every entry, whether from abroad, or in one part of the United States from another.

One reason for this construction results from the second section, which provides that vessels built and owned in the United States, whilst employed in the coasting trade or fisheries, shall not pay tonnage

more than once a year. If the duty were confined to entries from abroad only, it could not arise at all on vessels employed in the coasting trade whilst so employed; in which case this provision would be wholly nugatory. The last clause of the twenty-third section of the "act for registering and clearing vessels, regulating the coast trade, and for other purposes," looks also to the same construction; strongly implying the payment of tonnage generally, between district and district, and enlarging the rate in a particular case.

Yet the third section of the act now under consideration has been supposed to have a different aspect, as it subjects all vessels, except those built within and owned by citizens of the United States, employed in transporting our own commodities, coastwise, to a tonnage of fifty cents at each entry; whence it has been inferred that, in other cases, the duty is not payable at each entry; because, by the first section, vessels wholly foreign pay fifty cents, whether employed in the coasting trade or not. But this inference loses its force when it is observed that there are other descriptions of vessels, in respect to which it serves to increase the rates specified in the first section, in favor of the exclusive privilege, to transport our own commodities coastwise, intended to be secured to vessels built within and owned by citizens of the United States. This suggests a use for the clause which is reconcilable with the provision in the second section.

The provisions of this act, however, appear to be varied by the "act for registering and clearing

vessels, regulating the coasting trade, and for other purposes," in these particulars. The latter extends the privileges in the coasting trade, which, by the former, seem to be confined to vessels of the build of the United States, to all vessels which are registered or enrolled, provided they obtain licenses for the purpose. It also extends the duty of fifty cents to the transportation of foreign (as well as domestic) commodities, from district to district, by any vessel of the burthen of twenty tons and upward, which has not a register or enrolment, and a license to trade.

Hence, if even a registered vessel, having no license, proceed from one district, with part of an outward bound cargo, to another district, in order to procure the remainder, and happen to take in a freight at the first place for the last, which amounts to a trading between the districts, she is subject on her entry in the last to foreign tonnage.

The propriety of this construction has been questioned; but a consideration of the general spirit of the coasting act, which aims at guarding the revenue against evasion, by the precautions annexed to the granting of licenses, and an accurate attention to the words of the last clause of the twenty-third section of that act, seem to leave no room for a different construction. These words are: "And if any vessel of the burthen of twenty tons or upward, not having a certificate of registry or enrolment, and a license, shall be found trading between different districts, or be employed in the bank or whale fisheries, every such ship or vessel shall be subject to the same tonnage and fees as foreign ships or vessels."

This provision, for want of having been understood in the proper sense, has, in a variety of instances, borne hard upon individuals who have omitted to procure licenses, and whose vessels have been, on that account, subjected to foreign tonnage. It is submitted to the consideration of the House, whether restitution of the sums paid, through misapprehension of a new law, would not be equitable in itself, and calculated to give a favorable impression of the liberality of the Government.

Perhaps, indeed, the expediency of the regulation itself merits reconsideration. The necessity of paying tonnage at all, in going from one district to another, has been a subject of complaint. And it is certain that it has in many cases been a burthen-some operation. It would appear to the Secretary, upon the whole, eligible, that, upon entries from district to district, tonnage should in no case be demanded, except where a freight had been taken in at one district for another; and that even there in respect to vessels registered, but not licensed, half tonnage only should be paid.

THIRDLY. As to the act to regulate the collection of the duties imposed by law on the tonnage of ships or vessels, and on goods, wares, and merchandise imported into the United States.

Sections 1, 2, 3, and 4. The arrangement of the districts, the privileges granted to some ports, the restrictions upon others, have been represented in a few instances as requiring alteration. The Secretary is inclined to think that some of the representations

made to him will deserve attention; but, as he presumes that the course of business will lead to the appointment of a special committee to prepare a bill for amending the laws under consideration, there are reasons which, with the permission of the House, would induce him to reserve a more particular communication on this part of the subject for that committee.

Section 5. This section contemplates a provision of boats for securing the collection of the revenue; but no authority to provide them is anywhere given. Information from several quarters proves the necessity of having them; nor can they, in the opinion of the Secretary, fail to contribute, in a material degree, to the security of the revenue, much more than will compensate for the expense of the establishment; the utility of which will increase in proportion as the public exigencies may require an augmentation of the duties. An objection has been made to the measure as betraying an improper distrust to the merchants; but that objection can have no weight when it is considered that it would be equally applicable to all the precautions comprehended in the existing system; all which proceed on a supposition, too well founded to be doubted, that there are persons concerned in trade in every country, who will, if they can, evade the public duties for their private benefit. Justice to the body of the merchants of the United States demands an acknowledgment that they have, very generally, manifested a disposition to conform to the national laws, which does them honor, and authorizes confidence in their probity. But every

considerate member of that body knows that this confidence admits of exceptions, and that it is essentially the interest of the greater number that every possible guard should be set on the fraudulent few, which does not, in fact, tend to the embarrassment of trade.

The following is submitted as a proper establishment for this purpose:

That there be ten boats, two for the coasts, bays, and harbors of Massachusetts and New Hampshire; one for the sound, between Long Island and Connecticut; one for the bay of New York; one for the bay of Delaware; two for the bay of the Chesapeake (these, of course, to ply along the neighboring coasts); one for the coasts, bays, and harbors of North Carolina; one for the coasts, bays, and harbors of South Carolina; and one for the coasts, bays, and harbors of Georgia.

Boats of from thirty-six to forty feet keel will answer the purpose, each having one captain, one lieutenant, and six mariners, and armed with swivels. The first cost of one of these boats, completely equipped, may be computed at one thousand dollars.

The following is an estimate of the annual expense:

10 Captains	at 40 dollars per month,	\$4,800
10 Lieutenants	at 25 " " "	3,000
60 Seamen	at 8 " " "	5,760
Provision		3,000
Wear and tear		2,000
		<hr/>
		\$18,560

The utility of an establishment of this nature must depend on the exertion, vigilance, and fidelity of those to whom the charge of the boats shall be confided. If these are not respectable characters they will rather serve to screen than detect fraud. To procure such, a liberal compensation must be given, and, in addition to this, it will, in the opinion of the Secretary, be advisable that they be commissioned as officers of the navy. This will not only induce fit men the more readily to engage, but will attach them to their duty by a nicer sense of honor.

Section 6. Collectors are here authorized, in case of necessary absence, sickness, or inability, to appoint deputies. It is represented that inconveniences have arisen from the want of the like power in the naval officers and surveyors.

Section 7. Provision is here made for the case of the disability or death of the collector, but not of the naval officer or surveyor. A similar provision, with respect to them, appears to be not less requisite.

Section 10. The provision of this section seems to extend too far. It is conceived that it ought to be confined to vessels owned wholly, or in part, by citizens of the United States; as it is not supposable that those of other nations can be acquainted with a regulation so entirely local in its nature, or be prepared to comply with it. There is also want of a penalty to enforce its observance.

This regulation has been represented as inconvenient and useless, but the Secretary does not view it in this light. It is probable that it will contribute to the security of the revenue, by rendering more diffi-

cult those collusions between masters and owners, which often take place after the arrival of vessels upon the coast, or within port.

Section 11. Masters of vessels, within forty-eight hours after their arrival in any port of the United States, are to make report. It is not explained whether they are not at liberty in the meantime to proceed elsewhere. The construction of the officers of the customs, in several instances, has been in favor of such liberty. But this construction does not appear to the Secretary well founded. He conceives that the duties become payable by the act of importation, even previously to entry, and that the forty-eight hours are only allowed as a reasonable time for the master to prepare his report; after which he is to be subject to a penalty for not doing it. An explanation, however, may prevent disputes.

It is also submitted, whether masters ought not to be required, within twelve hours after their arrival, to announce it at the custom-house, and to complete their report within twenty-four, with an exception for Sundays. It is of moment that vessels arriving should be brought as speedily as possible under the notice of the proper officers, and that their situation should be ascertained as early as practicable. More time than is necessary for disclosing it with proper accuracy can be of no real use, and gives greater opportunity for concerting frauds.

In the oath here prescribed for masters of vessels, there is no view to those casualties which may cause the cargo to be diminished at sea. There ought to be room for making the proper exceptions, according

to the circumstances. And it would be useful to make it a part of the oath, that any goods afterwards discovered on board shall be reported; as in the case of importers or consignees.

Section 12. It is here declared that no goods shall be unladen but in open day. It would be more safe, as well as more certain, to fix particular hours for the purpose, according to different seasons of the year. And it is submitted, whether all lading, as well as unloading of goods, at other hours, unless by special license from the officers of the customs, ought not to be forbidden. If, in addition to this, masters of vessels were required to give previous notice to the officers assigned to their respective vessels, of the times when deliveries are intended to begin, it would afford an increase of security.

This section contains various penalties on persons concerned in unloading and removing goods without the requisite permits. It would be a most powerful check upon fraud if every master of a vessel concerned in one, should, on conviction, be disqualified, under competent penalties, from having at any time after the command or charge of a vessel within the United States. There are, however, objections of weight to such a provision.

Section 13. The effect of this section is to oblige the payment or securing of the duties on all the goods brought in any vessel, at the port at which she first arrives, though part of them be destined for another, either within the United States, or elsewhere. This regulation is a subject of complaint. Its inconvenience becomes the more apparent, when it is

considered that all the goods intended for another port must first be landed (and certain articles measured, weighed, or gauged), and afterward reshipped. The trouble, expense, and delay of such a process are serious obstructions to trade. Balancing its commercial inconveniences with the additional security which it may afford to the revenue, the Secretary is of opinion that an alteration is advisable. It should be incumbent upon the master of the ship to make report, at the first port, of the whole cargo on board, upon oath, distinguishing the particular goods intended for each port; and also to make oath, at every subsequent port, of the particulars of the goods landed at any preceding one, and of the persons to and for whom they were delivered; producing also certificates from the proper officers, of the whole quantity of the goods originally entered, and of so much as may have been regularly landed. A power of securing, with proper fastenings, the hatches and other communications with the holds of ships; providing for accidents and necessity; and even, if judged requisite, to put an inspector on board, in going from one port to another, ought to be superadded.

No person but the owner or consignee of goods can make the entry here required. This, from the absence of parties, is sometimes inconvenient. It is the practice of countries, whose regulations are not deficient in strictness, to allow an agent of the party to make entry in his absence. And though this may widen the door for evasion, there are, nevertheless, strong arguments, derived from convenience,

in its favor. Penalties, proportionably severe, may be inflicted upon fraud committed by any such agent, and the permission may be confined to the case of persons absent at the time of the arrival of the vessel in which the goods may have been brought.

The oath here directed to be taken by importers is not always in their power. There may be no invoice, nor any other accurate account of the quantity, quality, or cost of articles. A qualification in this respect is indispensable. Entries, without specifying particulars, must, of necessity, be admitted; parties swearing that they have received no account of them, and that they are unknown. An eye is had to this in the sixteenth section, but something is wanting to reconcile the two sections, and define a more accurate course of proceeding in the case.

Section 15. Inspectors are to be put on board vessels, who are to remain on board until they are discharged. This implies during the night as well as the day; which, if practised, would multiply the number of inspectors to a very expensive extent. A power of securing the hatches and other communications with the holds of vessels, during the night, would give greater security, where inspectors were kept constantly on board, and would, in many instances, obviate the necessity of doing it.

The unloading of a vessel is here limited to fifteen working days after she begins to unload. But the commencement of the business may be postponed as long as the parties interested think fit. If there should be considerable delay, either an inspector

must remain on board the whole time, in which case the expense may exhaust the duty, or there must be great opportunity for fraud. It seems proper, either to fix an ultimate limit for unloading, to be computed from the time of arrival, or of the master's report; or a period, after which, the expense of an inspector shall be borne by the party. The first appears to the Secretary most advisable, and he conceives that twenty working days, after the master's report, would suffice.

Section 19. The payment or securing of the duties is here made a preliminary to their being landed. This, in a strict sense, is impracticable, as certain articles must first be landed, weighed, gauged, or measured, before the duties can be ascertained. The object, however, of the provision is proper, and it must be construed to admit a gross estimate of the sum in the first instance, subject to after-revision. It would, however, be desirable, that a discretion of this sort should be expressed. The collector, together with the naval officer, where there is one, or alone, where there is none, may be authorized to determine the amount of the duties to be paid, by an estimate of the same, according to the best of their or his judgment, and the collector may be empowered, in case of an over-estimate, either to return the excess, if the money has been paid, or to endorse a credit for it on the bond.

A discount of ten per cent. is here allowed for prompt payment, on the excess of any sum of duties beyond fifty dollars. The policy of this discount is questionable. Experience shows that, in most of

the States, transient persons chiefly avail themselves of it, who would in most cases pay the money without the discount, to avoid the inconvenience of suretyship.

But even if the discount ought to be continued, the rate seems to be too high. It exceeds the rate of interest at which the Government may borrow, more than is equivalent for the insurance of the risk of non-payment. Seven per cent. would, in the judgment of the Secretary, be the extent of a proper allowance. The confining the discount to the excess beyond fifty dollars counteracts the provision wherever that excess is not considerable.

It is provided by the last clause of this section, that no person, whose bond is unsatisfied after it becomes due, shall have a future credit with the collector until it shall be discharged. The words "the collector," having been supposed to confine the non-allowance of credit to the particular collector to whom the bond was given; in which sense, a further credit may be had in another district; which would considerably lessen the utility of the regulation. The removal of this ambiguity, so as to render the exclusion general, may add to the efficacy of the provision.

Section 29. The compensations to the officers established by this section require revision; they are, in many instances, inadequate; in some, disproportionate. Resignations in consequence of it have taken place, and others are suspended on the expectation of a favorable alteration during the present session. It is certain that competent allowances

are essential to the idea of having the service performed by characters worthy of trust. And how much the security of the revenue depends on this is evident. There are many ports where the officers receive next to nothing for their services. It were superfluous to comment on the inexpediency of such a state of things.

The Secretary for the sake of brevity, begs leave to reserve the details on this head for the committee before alluded to.

It has been inferred from this section, that the collector and naval officer are, necessarily, to transact their business in separate apartments. This (if it be the design of the provision from which the inference is drawn) was, probably, founded upon the idea, that the separation would lessen the danger of collusion between those officers. But it does not seem likely that a circumstance of this sort could have much effect in that way, while the separation leaves a good deal more in the power of the collector, and renders the naval officer far less a check upon him, than if he were made an immediate witness to his transactions. The Secretary is of opinion that it would be preferable to require them to act in conjunction, and in the presence of each other, among other things, jointly administering and certifying all oaths required to be taken at the custom-houses.

Section 30. This section provides for the receipt of the duties in gold and silver coin only. The Secretary has considered this provision as having for object, the exclusion of payments in the paper emissions of the particular States, and the securing the

immediate or ultimate collection of the duties in specie, as intended to prohibit to individuals the right of paying in any thing except gold or silver coin; but not to hinder the treasury from making such arrangements as its exigencies, the speedy command of the public resources, and the convenience of the community might dictate; those arrangements being compatible with the eventual receipt of the duties in specie. For instance, the Secretary did not imagine that the provision ought to be so understood as to prevent, if necessary, an anticipation of the duties, by treasury drafts, receivable at the several custom-houses. And, if it ought not to be understood in this sense, it appeared to him that the principle of a different construction would extend to the permitting the receipt of the notes of public banks, issued on a specie fund. Unless it can be supposed, that the exchanging of specie, after it has been received for bank notes, to be remitted to the treasury, is also interdicted, it seems difficult to conclude that the receipt of them, in the first instance, is forbidden.

Such were the reflections of the Secretary with regard to the authority to permit bank notes to be taken in payment of the duties. The expediency of doing it appeared to him to be still less questionable. The extension of their circulation, by the measure, is calculated to increase both the ability and the inclination of the banks to aid the Government. It also accelerates the command of the product of the revenues for the public service, and it facilitates the payment of the duties. It has the first effect, be-

cause the course of business occasions the notes to be sent beforehand to distant places; and being ready on the spot, either for payment or exchange, the first post, after the duties become payable, or are received, conveys them to the treasury. The substitution of treasury drafts, anticipating the duties, could hardly be made without some sacrifice on the part of the public. As they would be drawn upon time, and upon the expectation of funds to be collected, and, of course, contingent, it is not probable that they would obtain a ready sale, but at a discount, or upon long credit. As they would also be more or less liable to accident, from the failure of expected payments, there would be continually a degree of hazard to public credit. And, to other considerations, it may be added, that the practice of anticipations of this kind is, in its nature, so capable of abuse as to render it an ineligible instrument of administration in ordinary cases, and fit only for times of necessity.

If the idea of anticipation should be excluded, then the relying wholly upon treasury drafts would be productive of considerable delay. The knowledge that the funds were in hand must precede the issuing of them. Here would of course be some loss of time. And as the moment of demand, created by the course of business, would frequently elapse, there would as frequently be a further loss of time in waiting for a new demand. In such intervals, the public service would suffer, the specie would be locked up, and circulation checked. Bank notes being a convenient species of money, whatever increases

their circulation, increases the quantity of current money. Hence, the payment of duties is doubly promoted by their aid; they at once add to the quantity of medium, and serve to prevent the stagnation of specie.

The tendency of the measure to lessen the necessity of drawing specie from distant places to the seat of Government results from the foregoing considerations. The slow operation of treasury drafts would frequently involve a necessity of bringing on specie, to answer the exigencies of government; the avoiding of which, as much as possible, in the particular situation of this country, need not be insisted upon.

But, convinced as the Secretary is of the usefulness of the regulation, yet, considering the nature of the clause upon which these remarks arise, he thought it his duty to bring the subject under the eye of the House. The measure is understood by all concerned to be temporary.

Indeed, whenever a National Bank shall be instituted, some new disposition of the thing will be a matter of course.

Sections 31 and 32. The provision, in these sections, respecting drawbacks, seems to require revision in several particulars.

The benefit of it is intended for any person by whom the goods may be exported, whether that person be the importer of them or another; and yet the oath to be taken by the exporter is of such a nature as must be very difficult to any but the importer. It declares, that the goods are, in quantity, quality, and value, according to the inward entry of them,

which was duly made at the time of importation—a fact, which, it is evident, can rarely be known to any but the person who made that entry. This must, therefore, occasion either difficulty in obtaining the drawback, or a kind of constructive swearing, inconsistent with that scrupulous strictness which ought ever to accompany an oath, and on which the security they are intended to afford must depend. To obviate both, it seems necessary to direct, that proof of the fact shall be made, to the satisfaction of the collector, by the oaths or affirmations of all the parties through whose hands the goods may have passed; in which case, each can be examined as far as his knowledge can be presumed to extend.

There is no rule prescribed for regulating the sum in which bonds shall be taken; whence there is, perhaps, too much left to the discretion of the officers. And the cancelling of the bond is made to depend, among other things, upon the oath or affirmation of the master and mate of the vessel, in which the goods are exported, attesting their delivery: a requisite which it may not always be possible to fulfil. The master or mate may die, or may quit the vessel from different causes, without complying with it. These circumstances seem to require some other modifications. The Secretary has had an eye to them in the draught of the bill accompanying his report of the ninth of January last; to which he begs leave respectfully to refer.

Section 40. This section provides that no goods, wares, or merchandise, of foreign growth or manufacture, subject to the payment of duties, shall be

brought into the United States, otherwise than by sea, and in ships or vessels of not less than thirty tons' burthen; with an exception as to the district of Louisville, and another, as to vessels, at the time of the passing of the act, on their voyage.

It is a matter which merits particular consideration, whether there ought not, also, to be an exception in regard to the most easterly district of the State of Massachusetts. The situation of that district is, in different views, peculiar, so as, perhaps, to render it advisable rather to endeavor to regulate, than to prevent the introduction of foreign articles in smaller vessels. The information received on this point will, also, with the leave of the House, be reserved for the committee before referred to.

FOURTHLY. *As to the "act for registering and clearing vessels, regulating the coasting trade, and for other purposes."*

Many of the provisions of this act are objected to, particularly those parts which relate to the coasting trade and fisheries; and yet, it must be confessed, that the proper remedies or alterations are neither obvious nor easy. The more the matter is examined, the more difficult it appears to reconcile the convenience of those branches of trade with due precautions for the security of the revenue.

Section 2. The idea of this section is, that every vessel shall be registered by the collector of the district to which she belongs. This regulation is a proper one, as a knowledge of the persons on whose oaths or affirmations the registries are to be founded

by the officer making them, is a security against imposition. But this provision seems to be contravened by that of the seventh section, as will be noted hereafter.

Section 3. This section directs the mode of ascertaining the tonnage of all ships or vessels.

It is, however, a question whether it means only those which are to be registered, in order to their registry, or extends to others, in order to computing the tonnage duty. The latter construction has been preferred, for the sake of equality and uniformity.

The mode of admeasurement prescribed, has been complained of, as unfavorable to certain kinds of vessels, and as tending to enlarge the tonnage beyond the standard of other countries.

Section 6. Objections are made to the form of the oath prescribed by this section. The party is to swear positively, to the place where the vessel was built (which, in a great number of cases cannot, with propriety, be done), and, also, to the citizenship, not only of himself, but of the other owners, and of the master (which, in many cases, must be equally difficult).

Inconveniences are experienced from the want of a rule for determining who are citizens. The consequence of it is that every man is left to his own opinion of what constitutes one, and it is represented that there are instances in which persons of reputation, supposing that residence only conferred the character, have been ready to take the oath prescribed.

A designation of the several descriptions of persons entitled to the privileges of citizens under this act, requiring that the particular one, under which each falls, should be inserted in his oath, would be the most effectual guard against error or imposition. If this should be thought to be attended with too many difficulties, from our peculiar situation, it may, at least, be proper to annex some adequate pecuniary penalty to the obtaining of registers by persons not citizens, and to oblige all who apply to specify, in their oaths, by what title they are citizens—that is, whether by nativity, naturalization, or otherwise, which, by bringing into view the situation of each person, would serve as a useful check.

In these observations it is taken for granted that, as the law now stands, the oath of the party is the sole guide to the officers of the customs; that they have not any discretion in the case, and that a power in them to judge of the qualifications of individuals, in so important a respect, could not, with propriety, be established.

Section 7. The second section, as already remarked, directs that vessels be registered in the districts to which they belong. This admits their registry wherever they may be, provided the oath required be taken before the collectors of the district to which they belong. It is conceived that an adherence to the principle of the second section, throughout, would conduce to security. And it is, therefore, submitted, whether, instead of the provision in this section, it would not be advisable to provide that, when a vessel, being in a district other

than that to which she belongs, has occasion to be registered, she shall be surveyed under the direction of the proper officer of the port where she may happen to be, and registered by the collector of the district to which she may belong, upon a certificate of the officer by whom such survey shall have been made.

Section 11. The declaring the instrument of transfer void, unless the register be recited in it, involves an embarrassing question, as to the property of the vessel, and does not seem necessary to the object in view. The subsequent part of the section, which annuls the privileges of an American bottom, without such recital, answering alone the purpose of the provision.

Section 12. If, in the oath on which the registry is founded, it be necessary to declare that the master is a citizen, it would seem equally necessary that, on a change of master, there should be a like attestation of his citizenship, previous to the endorsement herein directed to be made, as, otherwise, a citizen may be the master one day, a foreigner the next.

Section 13. There would be less room for imposition if, instead of allowing the collector of the port where the vessel might be to grant a new register, he were authorized merely to take the oath prescribed, in order to its transmission to the collector of the district where she might belong, making it the duty of the latter to issue the new register.

Section 22. This section commences the regulations respecting vessels employed in the coasting trade and fisheries. The proviso of it exempts all licensed vessels, under twenty tons, from clearing

and entering, and in its consequences, removes them, almost wholly, from the inspection of the officers of the customs. The tendency of this to facilitate smuggling is obvious, as these vessels are precisely of that kind which would be most naturally employed in clandestinely unloading, on the coast, those which arrive from abroad. The bond required, in order to a license, is a very slender restraint, not only from the smallness of the penalty, but from the little danger of discovery. And the oath is still less effectual, because the master who is to take it may at any time be changed before the application for a new license. This oath, too, is exceptionable on other accounts. The anticipation of a future and distant oath may be too apt to give way to the allurements of immediate interest; and if a breach of the law have been committed when it is to be taken, it is hardly to be expected that there will be a strict adherence to truth at the price of incurring both disgrace and loss.

It would, perhaps, be more effectual and less exceptionable if, instead of this oath, one should be required, previous to the granting of any license to a fishing or coasting vessel, from the owner or owners of such vessel, that she shall not, during the time for which it is to be granted, be employed, with his or their permission, consent, sufferance, privity, or connivance, in any way whereby the payment of the duties imposed by law on articles imported into the United States may be evaded.

But it seems indispensable toward guarding against the frauds which may be committed by coasters that they should be obliged, at every port or place where

there is an officer of the customs, to report themselves and their lading, on their arrival, and previous to their departure. For this purpose, the office hours ought to be so regulated and extended as to afford the greatest possible accommodation, and avoid occasions of delay. With this precaution and taking care that the fees are moderate, it is presumable that coasters may be subjected to a pretty exact inspection without injuriously impeding their business.

While they ought, in the opinion of the Secretary, to be thus subjected to a strict supervision at places where there are officers, it appears to him proper that they should be exempted from the obligation either of entering or clearing when at places where there are none. The necessity of journeys to distant offices, frequently across rivers and bays, and at the expense of the loss of favorable winds, occasions, in some parts of the Union, serious obstructions to the coasting trade. As connected with the idea, it would tend to the security of the revenue if a discretion were allowed to appoint inspectors at places which are not ports of general entry or delivery, for the purpose of entering, clearing, and overseeing coasters.

Section 23. In the remarks on the act imposing duties on tonnage, the construction which has obtained upon the last clause of this section has been stated, together with the hardships which have ensued to individuals from misapprehension of it.

A different modification of the provision has also been suggested. Among other reasons to be assigned for it is this: that, by obliging all registered

vessels to take out licenses, it unnecessarily increases the number of vessels entitled to the privileges of coasters. In the opinion of the Secretary, these ought to be confined to such as are ordinarily employed in the coasting and fishing trade; to effect which it may be proper that previous to the granting of any license an oath or affirmation should be made that the vessel for which it is required is, *bona fide*, intended to be employed as a coasting or fishing vessel during the period for which it is to be granted, or the greater part of it; and even to annex a penalty to the taking out a license for any vessel which shall not be so employed. This, in respect to fishing vessels, seems peculiarly necessary, as it is easy to see that on the pretext of that employment licenses may be perverted from their real purpose to that of a mere cover for illicit practices.

There is no provision for the case of a change of property within the year, for which a license may be granted, which sometimes occasions sureties to be bound for parties they did not contemplate. This, and the repetition of tonnage duty, which is a consequence of it, is regarded as an inconvenience, requiring to be remedied by a provision for the granting new licenses, when such changes happen, upon new security for the remainder of the year.

Sections 27 and 28. As there are no particular penalties annexed to a non-compliance with the requisites of these sections, it has, of course, been found in some instances difficult to enforce their execution. And though it is presumed that such non-compliance would be a good probable cause of

seizure, yet if, in the event of a trial, it turned out in one case that there were no foreign goods nor ardent spirits exceeding four hundred gallons on board; and in the other, that a manifest and permit had been obtained, and that no goods were on board but such as they had specified, no penalty could be inflicted. And a vexatious litigation between the officer and the party might be the only fruit of the seizure.

It is inferred from the last of these sections that a coaster whose ultimate destination is for a place where a collector or surveyor resides, having on board goods for any intermediate place, is not at liberty to land those goods at such intermediate place till after a permit for landing shall have been obtained at the place of destination; which is complained of as a grievance, and certainly is attended, in many cases, with considerable inconvenience. A relaxation in this respect, may be advisable. And to guard as much as possible against any ill effects from it, it may be expedient that, whenever a coaster arrives at a port where a collector or surveyor resides, it should be incumbent upon the master of her to make a report in writing, and upon oath, stating the goods on board at the time of her departure from the last port left by her at which a collector or surveyor presided, and which may have been afterwards taken in or delivered prior to her arrival at the place of report. In this case, to avoid a too great multiplication of oaths, the oaths required by the 25th and 26th sections may be dispensed with; though it will be still useful that the manifests should be exhibited and certified.

Section 31. The Secretary, considering it as an essential rule that emoluments of office should not be extended by construction or inference beyond the letter of the provision, lest a door should be opened to improper exactions, has instructed the officers of the customs to govern themselves by a literal interpretation of the several clauses of this section; the consequence of which, however, is that equal services are unequally recompensed.

This chiefly arises from that clause which allows a fee of sixty cents.

“For every entry of inroad cargo, directed to be made in conformity with this act, and for receiving of, and qualifying to, every manifest of vessels, licensed to trade as aforesaid.”

The entry and the receiving and qualifying to a manifest being joined together by the word *and*, are understood as one service, to which a fee of sixty cents is attached; so that, when only either of the two things is performed, and not the other, no fee is taken.

Hence there is no allowance for swearing the master to his manifest, and granting a certificate of its having been done according to the twenty-fifth and twenty-sixth sections of this act, because it is not accompanied in either case with an inward entry. Twenty cents for the permit to proceed to the place of destination is the only fee understood to be demandable for the services specified in these sections.

The sixty cents are deemed applicable only to the services enjoined by the twenty-seventh section.

A revision of this section will upon accurate ex-

amination be found eligible for other reasons, which for the sake of brevity are omitted.

The foregoing are the principal remarks which occur on the provisions of the several acts, on which the Secretary has been directed to report. These acts have fulfilled their objects in all respects as well as could reasonably have been expected from the first essay on so difficult a subject. It was foreseen that experience would suggest the propriety of corrections in the system, and it is equally to be inferred that further experiment will manifest the expediency of further correction. The work must be progressive, since it can only be by successive improvements that it can be brought to the degree of perfection of which it is susceptible.

As connected with the difficulties that have occurred in the execution of the laws, which is the subject of this report, the Secretary begs leave, in the last place, to mention the want of an officer in each State, or other considerable subdivision of the United States, having the general superintendance of all the officers of the revenue within such State or subdivision.

Among the inconveniences attending it, is a great difficulty in drawing from the more remote ports the moneys which are there collected. As the course of business creates little or no demand at the seat of Government, or in its vicinity, for drafts upon such places, negotiations in this way are either very dilatory or impracticable; neither does the circulation of bank paper, from the same cause, extend to them.

This embarrassment would be remedied by having one person in each State, or in a district of the United States of convenient extent, charged with the receipt of all the moneys arising within it, and placed in point of residence where there was the greatest intercourse with the seat of Government. This would greatly facilitate negotiations between the treasury and distant parts of the Union, and would contribute to lessening the necessity for the transportation of specie.

But there are other reasons of perhaps still greater weight for the measure. It is, in the opinion of the Secretary, essential to a due supervision of the conduct of the particular officers engaged in the collection of the revenues, and to the purposes of exact and impartial information, as to the operation of the laws which relate to them. It is impossible that the first end can be answered by any attention or vigilance of an individual, or individuals, at the head of the treasury. Distance and the multiplicity of avocations are conclusive bars. And, however it may appear at first sight, that the second end may be attainable from the communications of those particular officers, yet, when it is considered how apt their representations will be to receive a tint from the personal interests of the individuals, and the local interests of districts, it must be perceived that there cannot always be sufficient reliance upon them, and that variances between them will not unfrequently serve rather to distract than to inform the judgment. Greater impartiality and, of course, better information may be expected from an officer who,

standing in the same relation to a larger district, composed of several smaller districts, will be more likely to be free from the influence either of personal interests or local predilections, in reference to the parts.

The Secretary begs leave, with the utmost deference, to say that he considers an arrangement of this kind as of real importance to the public service and to the efficacious discharge of the trust reposed in him.

All which is humbly submitted.

ALEXANDER HAMILTON,
Secretary of the Treasury.

ARREARS OF PAY ¹

Hamilton to Washington

(Cabinet Paper).

TREASURY DEPARTMENT, May 28, 1790.

The Secretary of the Treasury conceives it to be his duty most respectfully to represent to the

¹ A petition signed by officers and soldiers of the Virginia and North Carolina lines had been presented to Congress asking for payment of arrears due them, but which they had assigned. Joint resolutions were thereupon passed by Congress ordering the Secretary of the Treasury to pay these arrears, and that where payment had not been made to the original claimants it should now be made to them. Hamilton, in this able report, advised the President to veto these resolutions on the ground that they violated the rights of the assignees, and thereby impaired the obligation of contract. Jefferson gave an opposite opinion, resting it on the common law doctrine that the conveyance of a debt not in possession was void, a bill of exchange and notes and bonds being the only exceptions. This doctrine had never been adopted in equity, but, nevertheless, Jefferson urged Washington to approve the measure on this narrow theory, and the President accepted his view and decided against Hamilton.

President of the United States that there are in his judgment objections of a very serious and weighty nature to the resolutions of the two Houses of Congress of the twenty-first instant, concerning certain arrears of pay, due to the officers and soldiers of the lines of Virginia and North Carolina.

The third of these resolutions directs that in cases where *payment* has not been made to the original claimant in person, or to his representative, it shall be made to the original claimant, or to such person or persons only as shall produce a power of attorney duly attested by *two justices* of the peace of the county in which such person or persons reside, authorizing him or them to receive a certain specified sum.

By the laws of most if not all the States, claims of this kind are in their nature assignable for a valuable consideration; and the assignor may constitute the assignee his attorney or agent to receive the amount. The import of every such assignment is a contract, express or implied, on the part of the assignor, that the assignee shall receive the sum assigned to his own use. In making it no precise form is necessary, but any instrument competent to conveying with clearness and precision the sense of the parties, suffices; there is no need of the co-operation of any justice of the peace, or other magistrate whatever.

The practice of the Treasury and of the public officers in other departments, in the adjustment and satisfaction of claims upon the United States, has uniformly corresponded with the rules of that law.

A regulation, therefore, having a retrospective

operation, and prescribing with regard to past transactions new and unknown requisites, by which the admission of claims is to be guided, is an infraction of the rights of individuals, acquired under pre-existing laws, and a contravention of the public faith, pledged by the course of public proceedings. It has consequently a tendency not less unfriendly to public credit than to the security of property.

Such is the regulation contained in the resolution above referred to. It defeats all previous assignments not accompanied with a *power of attorney* attested by *two justices* of the peace of the *county* where the assignor resides; a formality which, for obvious reasons, cannot be presumed to have attended any of them, and which does not appear to have been observed with respect to those upon which application for payment has hitherto been made.

It is to be remarked that the assignee has no method of compelling the assignor to perfect the transfer by a new instrument in conformity to the rule prescribed; if even the existence of such a power, the execution of which would involve a legal controversy, could be a satisfactory cause for altering by a new law that state of things which antecedent law and usage had established between the parties.

It is, perhaps too, questionable whether an assignee, however equitable his pretensions were, could, under the operation of the provision which has been recited, have any remedy whatever for the recovery of the money or value which he may have paid to the assignor.

It is not certain that a legislative act decreeing

payment to a different person, would not be a legal bar; but if the existence of such a remedy were certain, it would be but a very inconclusive consideration. The assignment may have been a security for a precarious or desperate debt, which security will be wrested from the assignee; or it may have been a composition between an insolvent debtor and his creditor, and the only resource of the latter; or the assignor may be absent and incapable either of benefiting by the provision, or of being called to an account. And in every case the assignee would be left to the casualty of the ability of the assignor to repay; to the perplexity, trouble, and expense of a suit at law. In respect to the soldiers, the presumption would be, in the greater number of cases, that the pursuit of redress would be worse than acquiescence in the loss. To vary the risks of parties, to supersede the contracts between them, to turn over a creditor without his consent from one *debtor* to *another*, to take away a right to a *specific thing*, leaving only the chance of a remedy for retribution, are not less positive violations of property than a direct confiscation.

It appears from the debates in the House of Representatives, and it may be inferred from the nature of the proceeding, that a suggestion of fraud has been the occasion of it. Fraud is certainly a good objection to any contract, and where it is properly ascertained invalidates it. But the power of ascertaining it is the peculiar province of the Judiciary Department. The principles of good government conspire with those of justice to place it there. 'T is there

only that such an investigation of the fact can be had as ought to precede a decision. 'T is there only the parties can be heard, and evidence on both sides produced; without which *surmise* must be substituted to *proof*, and *conjecture* to *fact*.

This, then, is the dilemma incident to legislative interference. Either the Legislature must erect itself into a court of justice and determine each case upon its own merits, after a full hearing of the allegations and proofs of the parties; or it must proceed upon vague suggestions, loose reports, or at best upon partial and problematical testimony, to condemn, in the gross and in the dark, the fairest and most unexceptionable claims, as well as those which may happen to be fraudulent and exceptionable. The first would be an usurpation of the judiciary authority, the last is at variance with the rules of property, the dictates of equity, and the maxims of good government.

All admit the truth of these positions as general rules. But, when a departure from it is advocated for any particular purpose, it is usually alleged that there are exceptions to it, that there are certain extraordinary cases in which the public good demands and justifies an extraordinary interposition of the Legislature.

This doctrine in relation to extraordinary cases is not to be denied; but it is highly important that the nature of those cases should be carefully distinguished.

It is evident that every such interposition deviating from the usual course of law and justice, and

infringing the established rules of property, which ought as far as possible to be held sacred and inviolable, is an overleaping of the ordinary and regular bounds of legislative discretion; and is in the nature of a resort to first principles. Nothing, therefore, but some urgent public necessity, some impending national calamity, something that threatens direct and general mischief to society, for which there is no adequate redress in the established course of things, can, it is presumed, be a sufficient cause for the employment of so extraordinary a remedy. An accommodation to the interests of a small part of the community, in a case of inconsiderable magnitude, on a national scale, cannot, in the judgment of the Secretary, be entitled to that character.

If partial inconveniences and hardships occasion legislative interferences in private contracts, the intercourses of business become uncertain, the security of property is lessened, the confidence in government destroyed or weakened.

The Constitution of the United States interdicts the States individually from passing any law impairing the obligation of contracts. This, to the more enlightened part of the community, was not one of the least recommendations of that Constitution. The too frequent intermeddlings of the State Legislatures, in relation to private contracts, were extensively felt, and seriously lamented; and a constitution which promises a preventive, was, by those who felt and thought in that manner, eagerly embraced. Precedents of similar interferences by the Legislature of the United States cannot fail to alarm

the same class of persons, and at the same time to diminish the respect of the State Legislatures for the interdiction alluded to. The *example* of the National Government in a matter of this kind may be expected to have a far more powerful influence than the precepts of the Constitution.

The present case is that of a particular class of men, highly meritorious indeed, but inconsiderable in point of numbers, and the whole of the property in question less than fifty thousand dollars, which, when distributed among those who are principally to be benefited by the regulation, does not exceed twenty-five dollars per man. The relief of the individuals who may have been subjects of imposition, in so limited a case, seems a very inadequate cause for a measure which breaks in upon those great principles that constitute the foundations of property.

The eligibility of the measure is more doubtful, as the courts of justice are competent to the relief which it is the object of the resolution to give, as far as the fact of fraud or imposition or undue advantage can be substantiated. It is true that many of the individuals would probably not be in a condition to seek that relief from their own resources; but the aid of government may in this respect be afforded, in a way which will be consistent with the established order of things. The Secretary, from the information communicated to him, believing it to be probable that undue advantages had been taken, had conceived a plan for the purpose, of the following kind: That measures should be adopted for procuring the appointment of an agent or attorney, by the

original claimants, or if deceased, by their legal representatives; that payment of the money should be deferred until this had been effected; that the amount of the sums due should then be placed in the hands of the proper officer for the purpose of payment; that a demand should be made upon him, on behalf of the original claimants, by their agent, and as a like demand would of course be made by the assignees, that the parties should be informed that a legal adjudication was necessary to ascertain the validity of their respective pretensions; and that in this state of things the Attorney-General should be directed either to prosecute or defend for the original claimants, as should appear to him most likely to insure justice. A step of this kind appeared to the Secretary to be warranted and dictated, as well by a due regard to the defenceless situation of the parties who may have been prejudiced, as by considerations resulting from the propriety of discouraging similar practices.

It is with reluctance and pain the Secretary is induced to make this representation to the President. The respect which he entertains for the decisions of the two Houses of Congress; the respect which is due to those movements of humanity toward the supposed sufferers, and of indignation against those who are presumed to have taken an undue advantage; an unwillingness to present before the mind of the President, especially at the present juncture, considerations which may occasion perplexity or anxiety, concur in rendering the task peculiarly unwelcome. Yet the principles which appear to the Secretary to

have been invaded, in this instance, are, in his estimation, of such fundamental consequence to the stability, character, and success of the government, and at the same time so immediately interesting to the department intrusted to his care, that he feels himself irresistibly impelled by a sense of duty, as well to the Chief Magistrate as to the community, to make a full communication of his impressions and reflections.

He is sensible that an inflexible adherence to the principles contended for must often have an air of rigor, and will sometimes be productive of particular inconveniences. The general rules of property, and all those general rules which form the links of society, frequently involve, in their ordinary operation, particular hardships and injuries; yet the public order and the general happiness require a steady conformity to them. It is perhaps always better that partial evils should be submitted to, than that principles should be violated. In the infancy of our present government, peculiar strictness and circumspection are called for, by the too numerous instances of relaxations, which in other quarters, and on other occasions, have discredited our public measures.

The Secretary is not unaware of the delicacy of an opposition to the resolutions in question, by the President, should his view of the subject coincide with that of the Secretary; yet he begs leave on this point to remark that such an opposition in a case in which a small part of the community only is directly concerned would be less likely to have disagreeable consequences than in one which should affect a very

considerable portion of it; and the prevention of an ill precedent, if it be truly one, may prove a decisive obstacle to other cases of greater extent and magnitude, and of a more critical tendency. If the objections are as solid as they appear to the Secretary to be, he trusts they cannot fail, with the sanction of the President, to engage the approbation, not only of the generality of considerate men, but of the community at large. And if momentary dissatisfaction should happen to exist in particular parts of the Union, it is to be hoped it will be speedily removed by the measures which, under the direction of the President, may be pursued for obtaining the same end in an unexceptionable mode; for the success of which the Secretary will not fail to exert his most zealous endeavors.

It is proper that the President should be informed that if objections should be made by him, they will in all probability be effectual, as the resolutions passed in the Senate with no greater majority than twelve to ten.

The Secretary feels an unreserved confidence in the justice and magnanimity of the President; that, whatever may be his view of the subject, he will at least impute the present representation to an earnest and anxious conviction in the mind of the Secretary of the truth and importance of the principles which he supports, and of the inauspicious tendency of the measure to which he objects, co-operating with a pure and ardent zeal for the public good, and for the honor and prosperity of the administration of the Chief Magistrate.

PUBLIC CREDIT

Communicated to the House of Representatives, December 13, 1790.

TREASURY DEPARTMENT, December 13, 1790.

In obedience to the order of the House of Representatives, of the ninth day of August last, requiring the Secretary of the Treasury to prepare and report on this day such further provision as may, in his opinion, be necessary for establishing the public credit, the said Secretary respectfully reports:

That the object which appears to be most immediately essential to the further support of public credit, in pursuance of the plan adopted during the last session of Congress, is the establishment of proper and sufficient funds for paying the interest which will begin to accrue, after the year one thousand seven hundred and ninety-one, on the amount of the debts of the several States assumed by the United States, having regard at the same time to the probable or estimated deficiency in those already established, as they respect the original debt of the Union.

In order to this, it is necessary, in the first place, to take a view of the sums requisite for those purposes.

The amount of the State debts which has been assumed is	\$21,500,000 00
The sum of annual interest upon that amount, which, according to the terms of the proposed loan, will begin to accrue after the year one thousand seven hundred and ninety-one, is	788,333 33
The estimated deficiency in the funds already established, as they respect the original debt of the United States, is	<u>38,291 40</u>
Making, together	\$826,624 73

For procuring which sum, the reiterated reflections of the Secretary have suggested nothing so eligible and unexceptionable, in his judgment, as a further duty on foreign distilled spirits, and a duty on spirits distilled within the United States, to be collected in the mode delineated in the plan of a bill, which forms part of his report to the House of Representatives, of the ninth day of January last.

Under this impression he begs leave, with all deference, to propose to the consideration of the House—

That the following additions be made to the duties on distilled spirits imported from foreign countries, which are specified in the act making further provision for the payment of the debts of the United States, namely:

On those of the first class of proof, therein mentioned, per gallon, eight cents;

On those of the second class, per gallon, eight and a half cents;

On those of the third class, per gallon, nine cents;

On those of the fourth class, per gallon, ten cents;

On those of the fifth class, per gallon, ten cents;

On those of the sixth class, per gallon, fifteen cents.

And that the following duties be laid on spirits distilled within the United States, namely:

If from molasses, sugar, or other foreign materials, and of the first class of proof, per gallon, eleven cents;

Of the said second class of proof, per gallon, twelve cents;

Of the said third class of proof, per gallon, thirteen cents;

Of the said fourth class of proof, per gallon, fifteen cents;

Of the said fifth class of proof, per gallon, twenty cents;

Of the said sixth class of proof, per gallon, thirty cents.

If from materials of the growth or production of the United States distilled within any city, town, or village, and

Of the said first class of proof, per gallon, nine cents;

Of the said second class of proof, per gallon, ten cents;

Of the said third class of proof, per gallon, eleven cents;

Of the said fourth class of proof, per gallon, thirteen cents;

Of the said fifth class of proof, per gallon, seventeen cents;

Of the said sixth class of proof, per gallon, twenty-five cents.

And upon each still employed in distilling spirits from the like materials, in any other place than a city, town, or village, in lieu of the rates above mentioned, the yearly sum of sixty cents for every gallon, English wine measure, of the capacity of such still, including its head: exempting, nevertheless, all such stills, within a certain defined dimension, as are used essentially for the domestic purposes of their respective proprietors.

The product of these several duties (which correspond in their rates with those proposed in the report above referred to, of the ninth of January last) may, upon as good grounds as the nature of the case will admit, prior to an experiment, be computed at eight hundred and seventy-seven thousand and five hundred dollars, the particulars of which computation are contained in the statement which accompanies this report.

This computed product exceeds the sum which has been stated as necessary to be provided, by fifty thousand eight hundred and seventy-five dollars and twenty-seven cents; an excess which, if it should be realized by the actual product, may be beneficially applied toward increasing the sinking fund.

The Secretary has been encouraged to renew the proposition of these duties, in the same form in which they were before submitted, from a belief, founded on circumstances which appeared in the different discussions of the subject, that collateral considerations, which were afterwards obviated, rather than objections to the measure itself, prevented its adoption, during the last session; from the impracticability, which he conceives to exist, of devising any substitute equally conducive to the ease and interest of the community; and from an opinion that the extension of the plan of collection which it contemplates, to the duties already imposed on wines and distilled spirits, is necessary to a well-grounded reliance on their efficacy and productiveness.

The expediency of improving the resource of dis-

tilled spirits, as an article of revenue, to the greatest practicable extent, has been noticed upon another occasion. Various considerations might be added to those then adduced, to evince it, but they are too obvious to justify the detail. There is scarcely an attitude in which the object can present itself, which does not invite, by all the inducements of sound policy and public good, to take a strong and effectual hold of it.

The manner of doing it, or, in other words, the mode of collection, appears to be the only point about which a difficulty or question can arise. If that suggested be liable to just objections, the united information and wisdom of the legislative body insure the substitution of a more perfect plan.

The Secretary, however, begs leave to remark, that there appear to him two leading principles, one or the other of which must necessarily characterize whatever plan may be adopted. One of them makes the *security* of the *revenue* to depend chiefly on the *vigilance* of the *public officers*; the other rests it essentially on the *integrity* of the *individuals* interested to avoid the payment of it.

The first is the basis of the plan submitted by the Secretary; the last has pervaded most if not all the systems which have hitherto been practised upon in different parts of the United States. The oaths of the dealers have been almost the only security for their compliance with the laws.

It cannot be too much lamented that these have been found an inadequate dependence. But experience has, on every trial, manifested them to be

such. Taxes or duties relying for their collection on that security wholly, or almost wholly, are uniformly unproductive. And they cannot fail to be unequal, as long as men continue to be discriminated by unequal portions of rectitude. The most conscientious will pay most; the least conscientious least.

The impulse of interest, always sufficiently strong, acts with peculiar force in matters of this kind, in respect to which a loose mode of thinking is too apt to prevail. The want of a habit of appreciating properly the nature of the public rights renders that impulse in such cases too frequently an overmatch for the sense of obligation, and the evasions which are perceived, or suspected to be practised by some, prompt others to imitation, by the powerful motive of self-defence. They infer that they must follow the example, or be unable to maintain an advantageous competition in the business—an alternative very perplexing to all but men of exact probity, who are thereby rendered, in a great measure, victims to a principle of legislation which does not sufficiently accord with the bias of human nature. And thus the laws become sources of discouragement and loss to honest industry, and of profit and advantage to perjury and fraud. It is a truth that cannot be kept too constantly in view, that all revenue laws which are so constructed as to involve a lax and defective execution, are instruments of oppression to the most meritorious part of those on whom they immediately operate, and of additional burthens on the community at large.

The last effect is produced in two ways. The

deficiencies in the funds (which, in the main, afford only partial exemptions) must be supplied from other taxes, and the charges of collection, which, in most cases, are nearly the same, whether a tax or duty yield much or little, occasion an accumulation of the ultimate expense of furnishing a given sum to the treasury.

Another and a very serious evil, chargeable on the system opposite to that proposed, is that it leads to frequent and familiar violations of oaths, which by loosening one of the strongest bands of society, and weakening one of the principal securities to life and property, offends, not less against the maxims of good government and sound policy, than against those of religion and morality.

It may not be improper further to remark, that the two great objections to the class of duties denominated excises are inapplicable to the plan suggested. These objections are: first, the *summary jurisdiction* confided to the officers of excise, in derogation from the course of the common law and the right of trial by jury; and, secondly, the general power vested in the same officers, of *visiting and searching, indiscriminately*, the houses, stores, and other buildings of the dealers in excised articles. But, by the plan proposed, the officers to be employed are to be clothed with no such *summary* jurisdiction, and their *discretionary* power of visiting and searching is to be restricted to those places which the dealers themselves shall designate by public insignia or marks as the depositories of the articles on which the duties are to be laid. Hence, it is one of the

recommendations of the plan, that it is not liable to those objections.

Duties of the kind proposed are not novel in the United States, as has been intimated in another place. They have existed, to a considerable extent, under several of the State governments, particularly in Massachusetts, Connecticut, and Pennsylvania. In Connecticut, a State exemplary for its attachment to popular principles, not only all ardent spirits, but foreign articles of consumption generally, have been the subjects of an excise or inland duty.

If the supposition, that duties of this kind are attended with greater expense in the collection than taxes on lands, should seem an argument for preferring the latter, it may be observed that the fact ought not too readily to be taken for granted. The state of things in England is sometimes referred to as an example on this point, but there the smallness of the expense in the collection of the land-tax is to be ascribed to the peculiar modification of it, which proceeding without new assessments according to a fixed standard long since adjusted, totally disregards the comparative value of lands and the variations in their value. The consequence of this is an inequality so palpable and extreme as would be likely to be ill relished by the landholders of the United States. If, in pursuit of greater equality, accurate periodical valuations or assessments are to afford a rule, it may well be doubted whether the expense of a land-tax will not always exceed that of the kind of duties proposed. The ingenious, but fallacious hypothesis, that all taxes on consumption

fall finally with accumulated weight on land, is now too generally and too satisfactorily exploded to require to be combated here. It has become an acknowledged truth that, in the operation of those taxes, every species of capital and industry contribute their proportion to the revenue, and consequently that, as far as they can be made substitutes for taxes on lands, they serve to exempt them from an undue share of the public burthen.

Among other substantial reasons which recommend, as a provision for the public debt, duties upon articles of consumption, in preference to taxes on houses and lands, is this: It is very desirable, if practicable, to reserve the latter fund for objects and occasions which will more immediately interest the sensibility of the whole community, and more directly affect the public safety. It will be a consolatory reflection, that so capital a resource remains untouched by that provision, which, while it will have a very material influence in favor of public credit, will also be conducive to the tranquillity of the public mind, in respect to external danger, and will really operate as a powerful guarantee of peace. In proportion as the estimation of our resources is exalted in the eyes of foreign nations, their respect for us must increase, and this must beget a proportionable caution, neither to insult nor injure us with levity; while, on the contrary, the appearance of exhausted resources (which would, perhaps, be a consequence of mortgaging the revenue to be derived from land, for the interest of the public debt) might tend to invite both insult and injury, by inspiring an

opinion that our efforts to resent or repel them were little to be dreaded.

It may not be unworthy of reflection that, while the idea of residuary resources, in so striking a particular, cannot fail to have many beneficial consequences, the suspension of taxes on real estate can as little fail to be pleasing to the mass of the community; and it may reasonably be presumed that so provident a forbearance on the part of the Government will insure a more cheerful acquiescence on that of the class of the community immediately to be affected, whenever experience and the exigency of conjunctures shall dictate a resort to that species of revenue.

But, in order to be at liberty to pursue this salutary course, it is indispensable that an efficacious use should be made of those articles of consumption which are the most proper and most productive, to which class distilled spirits very evidently belong; and a prudent energy will be requisite, as well in relation to the mode of collection as to the quantum of the duty.

It need scarcely be observed that the duties on the great mass of imported articles have reached a point which it would not be expedient to exceed. There is at least satisfactory evidence that they cannot be extended further without contravening the sense of the body of the merchants; and, though it is not to be admitted, as a general rule, that this circumstance ought to conclude against the expediency of a public measure, yet, when due regard is had to the disposition which that enlightened class of our citizens

has manifested toward the National Government, to the alacrity with which they have hitherto seconded its operations, to the accommodating temper with which they look forward to those additional impositions on the objects of trade, which are to commence with the ensuing year, and to the greatness of the innovation, which, in this particular, has already taken place in the former state of things, there will be perceived to exist the most solid reasons against lightly passing the bounds which coincide with their impressions of what is reasonable and proper. It would be, in every view, inauspicious to give occasion for a supposition that trade alone is destined to feel the immediate weight of the hands of Government in every new emergency of the treasury.

However true, as a general position, that the consumer pays the duty, yet, it will not follow that trade may not be essentially distressed and injured, by carrying duties on importations to a height which is disproportionate to the mercantile capital of a country. It may not only be the cause of diverting too large a share of it from the exigencies of business, but, as the requisite advances to satisfy the duties, will, in many, if not in most cases, precede the receipts from the sale of the articles on which they are laid, the consequence will often be sacrifices which the merchant cannot afford to make.

The inconveniences of exceeding the proper limit in this respect, which will be felt everywhere, will fall with particular severity on those places which have not the advantage of public banks, and which abound least in pecuniary resources. Appearances

do not justify such an estimate of the extent of the mercantile capital of the United States as to encourage to material accumulations on the already considerable rates of the duties on the mass of foreign importation.

Another motive for caution on this point arises from the reflection that the effect of an important augmentation made by a law of the last session is, hitherto, a mere matter of speculative calculation, and has not yet even begun to be tried.

It is presumable, too, that a still further augmentation would have an influence the reverse of favorable to the public credit. The operation would be apt to be regarded as artificial, as destitute of solidity, as presenting a numerical increase, but involving an actual diminution of revenue. The distrust of the efficacy of the present provision might also be accompanied with a doubt of a better substitute hereafter. The inference would not be unnatural, that a defect of other means, or an inability to command them, could alone have given birth to so unpromising an effort to draw all from one source.

A diversification of the nature of the funds is desirable on other accounts. It is clear that less dependence can be placed on one species of funds, and that, too, liable to the vicissitude of the continuance or interruption of foreign intercourse, than from a variety of different funds, formed by the union of internal with external objects.

The inference from these various and important considerations seems to be, that the attempt to extract wholly, from duties on imported articles, the

sum necessary to a complete provision for the public debt would probably be both deceptive and pernicious—incompatible with the interests not less of revenue than of commerce; that resources of a different kind must, of necessity, be explored; and that the selection of the most fit objects is the only thing which ought to occupy inquiry.

Besides the establishment of supplementary funds, it is requisite to the support of the public credit that those established should stand on a footing which will give all reasonable assurance of their effectual collection.

Among the articles enumerated in the act making *further provision for the payment of the debt of the United States* there are two, wines and teas, in regard to which some other regulations than have yet been adopted seem necessary for the security of the revenue and desirable for the accommodation of the merchant.

With these views it is submitted that the term for the payment of the duties on wines be enlarged, as it respects Madeira wines, to eighteen months; and as it respects other wines, to nine months; and that they be collected on a plan similar to that proposed in relation to imported distilled spirits.

And that a third option (two being allowed by the present law) be given to the importers of teas, which shall be, to give bond, without security, for the amount of the duty in each case, payable in two years, upon the following terms:

The teas to be deposited, at the expense and risk of the importer, in storehouses, to be agreed upon between him and the proper officer of the revenue; each

storehouse having two locks, the key of one of which to be in the custody of the importer or his agent, and the key of the other of which to be in the custody of an officer whose duty it shall be made to attend, at all reasonable times, for the purpose of deliveries.

These deliveries, whether for home sale or for exportation to a foreign country, to be warranted by permits from the chief officer of inspection of the place.

If for home sale, the permits to be granted after the duties shall have been paid, or secured to be paid.

When the amount of the duties shall not exceed one hundred dollars, four months to be allowed for payment. When it shall exceed one hundred dollars, and not exceed five hundred dollars, the term of payment to be eight months; and twelve months, whenever the amount shall exceed five hundred dollars: Provided, that the credit shall in no case extend beyond the period of two years, originally allowed for the entire sum. If the duties on the whole quantity deposited shall not have been paid, or secured to be paid, before the expiration of that time, it shall be lawful for the proper officer to cause a sale to be made of so much as shall be sufficient to discharge what shall remain unsatisfied. In every case, it shall be at the option of the party applying for the permit, either to pay the amount of duties on the quantity to be delivered, or to give bond for it, with one or more sureties, to the satisfaction of the officer whose province it shall be to grant the permits.

If the deliveries are to be made for exportation, the permits to be granted upon bond being entered into, to secure and ascertain the exportation. This may

require some alterations of form, in the manner of proceeding, relatively to the exportation of this article.

All teas to be landed under the care of the inspectors of the revenue; the chests, and other packages containing them, to be marked; and certificates, which shall accompany them, be granted, as in the case of distilled spirits.

To these more direct expedients for the support of public credit, the institution of a national bank presents itself, as a necessary auxiliary. This the Secretary regards as an indispensable engine in the administration of the finances. To present this important object in a more distinct and more comprehensive light, he has concluded to make it the subject of a separate report.

All of which is humbly submitted.

ALEXANDER HAMILTON,

Secretary of the Treasury.

Estimate of the probable product of the funds proposed in the annexed report.

4,000,000 gallons of distilled spirits, imported from foreign countries, at 8 cents per gallon	\$320,000 00
3,500,000 gallons of spirits, distilled in the United States, from foreign materials, at 11 cents per gallon	385,000 00
3,000,000 gallons of spirits, distilled from materials of the United States, at 9 cents per gallon	270,000 00
Total dollars	\$975,000 00
Deduct for drawbacks and expense of collecting, 10 per cent	97,500 00
Net product	\$877,500 00

HAMILTON TO SUPERVISORS OF BOSTON

TREASURY DEPARTMENT, July 27, 1791.

GENTLEMEN:

A temporary absence from the seat of government has delayed an answer to your letter of the 14th inst.

It is an established rule at the treasury not to disclose the amount of the stock which stands to the credit of any person on the public books to any but the proprietor himself, or his regular representative; and the reasons extend, of course, to the respective loan offices.

One of those reasons is, that as property in the public funds constitutes an usual and a considerable portion of mercantile capital, wherever public credit is well supported, the permitting an inspection into the stock account of individuals to others than the parties respectively interested, would have a tendency to lay open the affairs and operations of merchants more than is consistent with the spirit of trade. Indeed, not only merchants, but other classes of citizens, may often have very fair and valid reasons for being disinclined to such an inspection; and it may be even conceived that it would not at all times be expedient to allow access to the secret emissaries of a foreign power to discover the quantum of interest which its own citizens might have in the funds of a nation.

In thus assigning some of the reasons which have given occasion to the rule that has been mentioned, I yield to a desire of satisfying the Board that it is not unsupported by considerations of weight, and

that a relaxation of it, in compliance with their request, could not with propriety be acceded to on my part.

At the same time, I feel myself called upon by the occasion to express an opinion that every thing in the nature of a direct tax on property in the funds of the United States is contrary to the true principles of public credit, and tends to disparage the value of the public stock. If any law of the State of Massachusetts, therefore, gives sanction to such a tax, it is presumed that it must have been passed without an advertence to this important idea; and it is not doubted that in the execution of it there will be all the care and moderation which the delicacy of the operation requires. It is desirable on every account that no occasion should be given to a discussion concerning the regularity of the proceeding.

LOANS

Communicated to the House of Representatives, February 7, 1792.

TREASURY DEPARTMENT, January 23, 1792.

Pursuant to the order of the House of Representatives of the first of November, 1791, directing the Secretary of the Treasury "to report to the House the amount of the *subscriptions* to the loans proposed by the act making provision for the public debt, as well in the debts of the respective States, as in the domestic debt of the United States, and of the parts which remain unsubscribed, together with such measures as are, in his opinion, expedient to be taken on the subject," the said Secretary respectfully submits the following report:

1. The whole amount of the domestic debt of the United States, principal and interest, which has been subscribed to the loan proposed concerning that debt, by the act entitled "An act making provision for the debt of the United States," according to the statement herewith transmitted, marked A, and subject to the observations accompanying that statement, is \$31,797,481 22

Which, pursuant to the terms of that act, has been converted into stock bearing an immediate interest of six per cent. per annum \$14,177,450 43
 Stock bearing the like interest from the first of January, 1801 7,088,727 79
 Stock bearing an immediate interest of three per cent. per annum 10,531,303 00

Making, together \$31,797,481 22
 Of which there stands to the credit of the trustees of the sinking fund, in consequence of purchases of the public debt made under their direction, the sum of \$1,131,364 76
 The unsubscribed residue of the said debt, according to the statements herewith transmitted, marked B and C, and subject to the observations accompanying the statement C, appears to amount to \$10,616,604 65

Loans

355

Consisting of registered debt, principal and interest	\$6,795,815 26
Unsubscribed stock on the books of the commissioners of loans for New Jersey, Pennsylvania, and Maryland, principal and interest	15,674 62
Credits on the books of the treasury, for which no certificates have been issued, principal and interest	107,648 63
Outstanding or floating evidences of debt, estimated, per statement C, at	3,697,466 14
Making, together	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 2px;"/> \$10,616,604 65

Concerning which some further arrangement is necessary.

The greatest part of the registered debt, hitherto unsubscribed, is owned by citizens of foreign countries, most if not all of whom appear now disposed to embrace the terms held out by the act above mentioned; extensive orders having been received from those creditors to subscribe to the loan, after the time for receiving subscriptions had elapsed.

A considerable part of the outstanding or floating debt consists of loan-office certificates, issued between the first of September, 1777, and the first of March, 1778, bearing interest on the nominal sum. Many of the holders of this species of debt have come in upon the terms of this act, but others have hitherto declined it; alleging that the special nature of their contract gives a peculiarity to their case, and renders the commutation proposed not so fair an equivalent to them as in other instances. They also complain

that the act has had, toward them, a compulsory aspect, by refusing the temporary payment of interest, unless they should exchange their old for new certificates, essentially varying the nature of their contract.

A resolution of Congress of the tenth of September, 1777, stipulates, in favor of this class of creditors, interest upon the *nominal* instead of the *real principal* of their debt, *until that principal be discharged*. This certainly renders their contract of a nature more beneficial than that of other creditors; but they are, at the same time, liable to be divested of the extra benefit it gives them by a payment of their specie dues; and it may be observed, that they have actually enjoyed, and by accepting the terms offered to them, were enabled to realize, advantages superior to other creditors. They have been paid interest by bills on France from the tenth of September, 1777, to the first of March, 1782, while other creditors received their interest in depreciated bills of the old emissions; and the terms of the loan proposed put it in their power to realize the benefit of interest, on the nominal amount of their respective debts, at rates from $6\frac{2}{100}$ nearly to $10\frac{4}{100}$ per cent. on their real or specie capital down to the last of December, 1790.

It does not, therefore, appear to have been an unreasonable expectation, that they, as readily as any other description of public creditors, would have acquiesced in a measure calculated for the accommodation of the Government, under circumstances in respect to which it has been demonstrated by *subsequent events* that the accommodation desired, was

consistent with the best interest of the public creditors. A large proportion of the parties interested have, indeed, viewed the matter in this light, and have embraced the proposition. It is probable that the *progress* of things will satisfy the remainder that it is equally their interest to concur, if a further opportunity be afforded. But it is, nevertheless, for themselves only to judge, how far the equivalent proposed is, in their case, a reasonable and fair one; how far any circumstances in their claim may suggest reasons for moderation on their part; or how far any other motives, public or private, ought to induce an acceptance. And the principles of good faith require that their election should be free.

On this ground, the complaint which regards the withholding of a temporary payment of interest, except on the condition of surrender of the old certificates for new ones, importing a contract substantially different, appears, to the Secretary, not destitute of foundation. He presumes that the operation of that provision, in the particular case, was not adverted to; or, that an exception would have been introduced as most consonant with the general spirit and design of the act. Accordingly, the further measures which will be submitted, will contemplate a method of obviating the objection in question.

From the consideration, that an extension of the time for receiving subscriptions, upon the terms of the act making provision for the debt of the United States, is desired by a large proportion of the non-subscribing creditors; and from the further

consideration, that sufficient experience has not yet been had of the productiveness of a considerable branch of the revenues which have been established, to afford the light necessary to a final arrangement, it is, in the judgment of the Secretary, advisable to renew the proposition for a loan in the domestic debt, on the same terms with the one which has been closed, and to allow time for receiving subscriptions to it until the last day of September next, inclusively; making provision for a temporary payment of interest to such who may not think fit to subscribe for the year 1792, of the like nature with that which was made in the same case for the year 1791, except as to the holders of loan-office certificates issued between the first of September, 1777, and the first of March, 1778; in respect to whom it is submitted as proper to dispense with the obligation of exchanging their old certificates for new, as the condition of their receiving interest in capacity of non-subscribers; and to allow them, without such exchange, to receive the same interest both for the year 1791 and 1792, as if they had subscribed to the first loan. It will not be materially difficult so to regulate the operation at the treasury as to avoid, in the particular case, that danger of imposition by counterfeits, which was the motive to the general provision for an exchange of certificates.

2. The amount of the subscriptions in the debt of the respective States, within the limits of the sum assumed in each, appears, by the statement marked D, to be \$17,072,334.39, subject to the observations accompanying that statement. Consequently, the

difference between the aggregate of the sums subscribed and the aggregate of the sums assumed is \$4,427,665.61. This difference is to be attributed to several causes—the principal of which are the following: First, that the sums assumed, in respect to certain States, exceeded the actual amount of their existing debts. Second, that, in various instances, a part of the existing debt was in a form which excluded it from being received, without contravening particular provisions of the law, as in the case of certificates issued after the first day of January, 1790, in lieu of certificates which had been issued prior to that period, which was reported upon by the Secretary on the twenty-fifth day of February last. Third, ignorance of, or inattention to, the limitation of time for receiving subscriptions. It appears that a number of persons lost the opportunity of subscribing from the one or the other of these causes.

A strong desire that a further opportunity may be afforded for subscriptions in the debts of the States has been manifested by the individuals interested. And the States of Rhode Island and New Hampshire have, by the public acts referred to by the Secretary, indicated a similar desire. The affording of such further opportunity may either be restricted within the limit as to amount, which is contemplated by the act itself, or may receive an extension which will embrace the residuary debts of the States.

The first may be considered as nothing more than giving full effect to a measure already adopted.

The last appears to have in its favor all the leading inducements to what has been already done. The

embarrassments which might arise from conflicting systems of finance are not entirely obviated. The efficacious command of the national resources for national exigencies is not unequivocally secured. The equalizing of the condition of the citizens of every State, and exonerating those of the States most indebted, from partial burthens which would press upon them, in consequence of exertions in a common cause, is not completely fulfilled until the entire debt of every State, contracted in relation to the war, is embraced in one general and comprehensive plan. The inconvenience to the United States of disburthening the States which are still encumbered with considerable debts, would bear no proportion to the inconvenience which they would feel, if left to struggle with those debts, unaided.

More general contentment, therefore, in the public mind, may be expected to attend such an exoneration, than the reverse; in proportion as the experience of actual inconvenience would be greater, though only applicable to parts, in the one, than in the other case.

With regard to States, parts only of the debts of which have been assumed, and in proportions short of those which have prevailed, in favor of other States, and short, also, of what would have resulted from a due apportionment of the entire sum assumed; the claim to a further assumption is founded on considerations of equal justice, as relative to the measure itself, considered in a separate and independent light.

But there is a further reason of material weight

for an immediate general assumption. Moneyed men, as well foreigners as citizens, through the expectation of an eventual assumption, or that, in some shape or other, a substantial provision will be made for the unassumed residue of the State debts, will be induced to speculate in the purchase of them. In proportion as the event is unsettled, or uncertain, the price of the article will be low, and the present proprietors will be under disadvantage in the sale. The loss to them in favor of the purchasers is to be regarded as an evil; and as far as it is connected with a transfer to foreigners, at an undervalue, it will be a national evil. By whatsoever authority an ultimate provision may be made, there will be an absolute loss to the community, equal to the total amount of such undervalue.

It may appear an objection to the measure, that it will require an establishment of additional funds by the Government of the United States. But this does not seem to be a necessary consequence. The probability is, that, without a supplementary assumption, an equal or very nearly equal augmentation of funds will be requisite to provide for *greater* balances in favor of certain States; which would be proportionably diminished by such assumption. The destination, not the quantum of the fund, will, therefore, be the chief distinction between the two cases.

It may also appear an objection to a total assumption, that the magnitude of the object is not ascertained with precision. It is not certainly known, what is the sum due in each State; nor has it been possible to acquire the information, owing to

different causes. But, though precise data are deficient, there are materials which will serve as guides. From the returns received at the treasury, assisted by information in other ways, it may be stated, without danger of material error, that the remaining debts of the States, over and above the sums already subscribed, will not exceed the amounts specified in statement D, accompanying this report. And that, including sums already subscribed, the total amount to be *ultimately* provided for, in the event of a general assumption, will not exceed 25,403,362 $\frac{71}{100}$ dollars, which would constitute an addition of 3,903,362 $\frac{71}{100}$ dollars to the sum of 21,500,000 dollars already assumed.

Should a total assumption be deemed eligible, it may still be advisable to assign a determinate sum for each State, that the utmost limit of the operation may be pre-established; and it is necessary, in order to the certainty of a due provision, in proper time, that interest should not begin to be payable, on the additional sums assumed, till after the year 1792.

It will occur, that provision has been made for paying to each State, in trust for its non-subscribing creditors, an interest upon the difference between the sum assumed for each State, and that actually subscribed, equal to what would have been payable, if it had been subscribed.

In the event of a further assumption, either within the limits already established, or commensurate with the remaining debts of the States, it is conceived that it will not be incompatible with the provision just mentioned, to retain, at the end of each quarter, dur-

ing the progress of the further subscription, out of the money directed to be paid to each State, a sum corresponding with the interest upon so much of its debts as shall have been subscribed to that period, paying the over-plus, if any, to the State. An absolute suspension of that payment does not appear consistent with the nature of the stipulation included in that provision; for, though the money to be paid to a State be expressly a trust for the non-subscribing creditors, yet, as it cannot be certain beforehand, that they will elect to change their condition, the possibility of it will not justify a suspension of payment to the State, which might operate as suspension of payment to the creditors themselves.

A further objection to such a suspension results from the idea, that the provision in question appears to have a secondary object, namely, as a pledge for securing a provision for whatever balance may be found due to a State, on the general settlement of accounts. The payment directed to be made to a State is "to continue *until* there shall be a settlement of accounts between the United States and the individual States, and, in case a balance should then appear in favor of a State, *until* provision shall be made for the said balance."

The secondary operation as a pledge or security (consistently with the intent of the funding act) can only be superseded in favor of the primary object, a *provision for the creditors*, and as far as may be necessary to admit them to an effectual participation in it. But as whatever money may be paid to a State, is to

be paid over to its creditors, proportional deductions may, with propriety, be made from the debts of those creditors who may hereafter subscribe, so that the United States may not have to pay twice for the same purpose.

If it shall be judged expedient either to open again, or to extend the assumption, it will be necessary to vary the description of the debts which may be subscribed, so as to comprehend all those which have relation to services or supplies during the war, under such restrictions as are requisite to guard against abuse.

In the original proposition for an assumption of the State debts, and in the suggestions now made on the same subject, the Secretary has contemplated, and still contemplates, as a material part of the plan, an effectual provision for the sale of the vacant lands of the United States. He has considered this resource as an important means of sinking a part of the debt, and facilitating ultimate arrangements concerning the residue. If supplementary funds shall be rendered necessary, by an additional assumption, the provision will most conveniently be made at the next session of Congress, when the productiveness of the existing revenues, and the extent of the sum to be provided for, will be better ascertained.

3. There is a part of the public debt of the United States which is a cause of some perplexity to the Treasury. It is not comprehended within the existing provision for the foreign debt, which is confined to *loans* made abroad; and it is questionable whether it is to be regarded as a portion of the domestic debt.

It is not only due to *foreigners*, but the interest upon it is payable, by express stipulation, in a foreign country; whence it becomes a matter of doubt, whether it be at all contemplated by the act making provision for the debt of the United States. The part alluded to is that which is due to certain foreign officers, who served the United States during the late war. In consequence of a resolution of Congress, directing their interest to be paid to them in France, the certificates which were issued to them specify that, "in pursuance of and compliance with a certain resolution of Congress, of the third day of February, 1784, the said interest is to be paid, annually, at the house of Mons. Le Grand, banker in Paris." Interest has accordingly been paid to them at Paris, down to the 31st of December, 1788, by virtue of a special resolution of Congress, of the 20th of August in that year; since which period no payment has been made.

It has been heretofore suggested, as the opinion of the Secretary, that it would be expedient to cause the whole of this description of debt to be paid off; among other reasons, because it bears an interest at six per centum per annum, payable abroad, and can be discharged with a saving. The other reasons alluded to are of a nature both weighty and delicate, and too obvious, it is presumed, to need a specification. Some recent circumstances have served to strengthen the inducements to the measure. But if it should, finally, be deemed unadvisable, it is necessary, at least, that provision should be made for the interest, which is now suspended, under the doubt

that has been stated, and from the want of authority to *remit* it pursuant to the contract.

The amount of this debt, with the arrears of interest to the end of the year 1791, is \$220,646.81.

4. The act making provision for the debt of the United States has appropriated the proceeds of the western lands, as a fund for the discharge of the public debt. And the act making provision for the reduction of the public debt has appropriated all the surplus of the duties on imports and tonnage, to the end of the year 1790, to the purpose of purchasing the debt at the market price, and has authorized the President to borrow the further sum of two millions of dollars for the same object.

These measures serve to indicate the intention of the Legislature, as early and as fast as possible, to provide for the extinguishment of the existing debt.

In pursuance of that intention, it appears advisable that a systematic plan should be begun for the creation and establishment of a sinking fund.

An obvious basis of this establishment, which may be immediately contemplated, is the amount of the interest on as much of the debt as has been, or shall be, from time to time, purchased, or paid off, or received in discharge of any debt or demand of the United States, made payable in public securities, over and above the interest of any new debt, which may be created, in order to such purchase or payment.

The purchases of the debt, already made, have left a sum of interest in the treasury, which will be increased by future purchases; certain sums payable

to the United States, in their own securities, will, when received, have a similar effect. And there is ground to calculate on a saving upon the operations, which are in execution with regard to the foreign debt. The sale of the western lands, when provision shall be made for it, may be expected to produce a material addition to such a fund.

It is therefore submitted, that it be adopted as a principle, that all interest which shall have ceased to be payable by any of the means above specified, shall be set apart and appropriated in the most firm and inviolable manner as a fund for sinking the public debt, by purchase or payment; and that the said fund be placed under the direction of the officers named in the second section of the act making provision for the reduction of the public debt, to be by them applied toward the purchase of the said debt, until the annual produce of the said fund shall amount to two per cent. of the entire portion of the debt which bears a present interest of six per centum, and thenceforth to be applied towards the redemption of that portion of the debt, according to the right which has been reserved to the Government. It will deserve the consideration of the Legislature, whether this fund ought not to be so vested, as to acquire the nature and quality of a *proprietary* trust, incapable of being diverted without a violation of the principles and sanctions of *property*.

A rapid accumulation of this fund would arise from its own operation; but it is not doubted, that the progressive development of the resources of the country, and a reduction of the rate of interest, by

the progress of public credit, already exemplified in a considerable degree, will speedily enable the Government to make important additions to it in various ways. With due attention to preserve order and cultivate peace, a strong expectation may be indulged that a reduction of the debt of the country will keep pace with the reasonable hopes of its citizens.

All which is humbly submitted.

ALEXANDER HAMILTON,

Secretary of the Treasury.

[Schedules A, B, C, D, State Papers, Finance, vol. i., pp. 149, 150, 151.]

SPIRITS, FOREIGN AND DOMESTIC ¹

Communicated to the House of Representatives, March 6, 1792.

TREASURY DEPARTMENT, March 5, 1792.

In obedience to the orders of the House of Representatives of the first and second days of November last, the first directing the Secretary of the Treasury to report to the House such information as he may have obtained, respecting any difficulties which may have occurred, in the execution of the act "repealing, after the last day of June next, the duties heretofore laid upon distilled spirits, imported from abroad and laying others in their stead, and, also, upon spirits distilled within the United States, and for appropriating the same," together with his opinion thereupon; the second directing him to re-

¹ This is the famous argument on the policy of internal revenue and the expediency of an excise on spirits, both of which are now established.

port to the House whether any, and what, alterations in favor of the spirits which shall be distilled from articles of the growth or produce of the United States, or from foreign articles, within the same, can, in his opinion, be made in the act for laying duties upon spirits distilled within the United States, consistently with its main design, and with the maintenance of the public faith; the said Secretary respectfully submits the following report:

From the several petitions and memorials which have been referred to the Secretary, as well as from various representations which have been made to him, it appears that objections have arisen in different quarters against the above-mentioned act, which have, in some instances, embarrassed its execution, and inspired a desire of its being repealed; in others, have induced a wish that alterations may be made in some of its provisions.

These objections have reference to a supposed tendency of the act, first to contravene the principles of liberty; secondly, to injure morals; thirdly, to oppress by heavy and excessive penalties; fourthly, to injure industry, and interfere with the business of distilling.

As to the supposed tendency of the act to contravene the principles of liberty, the discussions of the subject which have had place in and out of the Legislature, supersede the necessity of more than a few brief general observations.

It is presumed that a revision of the point cannot, in this respect, weaken the convictions which originally dictated the law.

There can surely be nothing in the nature of an *internal duty* on a *consumable* commodity, more incompatible with liberty, than in that of an *external duty* on a like commodity. A doctrine which asserts, that all duties of the former kind (usually denominated excises) are inconsistent with the genius of a free government, is too violent, and too little reconcilable with the necessities of society, to be true. It would tend to deprive the Government of what is, in most countries, a principal source of revenue, and by narrowing the distribution of taxes, would serve to oppress particular kinds of industry. It would throw, in the first instance, an undue proportion of the public burthen on the merchant and on the landholder.

This is one of those cases in which names have an improper influence, and in which prepossessions exclude a due attention to facts.

Accordingly, the law under consideration is complained of, though free from the features which have served, in other cases, to render laws on the same subject exceptionable; and, though the differences have been pointed out, they have not only been overlooked, but the very things which have been studiously avoided in the formation of the law, are charged upon it, and, that, too, from quarters where its operation would, from circumstances, have worn the least appearance of them.

It has been, heretofore, noticed that the chief circumstances which, in certain excise laws, have given occasion to the charge of their being unfriendly to liberty, are not to be found in the act which is the

subject of the report, viz.: first, a summary and discretionary jurisdiction in the excise officers, contrary to the course of the common law, and in abridgment of the right of trial by jury; and, secondly, a general power, in the same officers, to search and inspect, *indiscriminately*, all the houses and buildings of the persons engaged in the business to which the tax relates.

As to the first particular, there is nothing in the act even to give color to a charge of the kind against it, and, accordingly, it has not been brought. But, as to the second, a very *different power* has been mistaken for it, and the act is complained of as conferring that very power of indiscriminate search and inspection.

The fact, nevertheless, is otherwise. An officer, under the act in question, can inspect or search no house or building, or even *apartment* of any house or building, which had not been *previously entered and marked* by the possessor as a place used for distilling or keeping spirits.

And even the power so qualified is only applicable to distilleries from foreign materials, and in cities, towns, and villages, from domestic materials; that is, only in cases in which the law contemplates that the business is carried on upon such a scale as effectually to separate the *distillery* from the *dwelling* of the distiller. The distilleries scattered over the country, which form much the greatest part of the whole, are in no degree subject to discretionary inspection and search.

The true principle of the objection which may be raised to a general discretionary power of inspection

and search, is that the *domicile* or *dwelling* of a citizen ought to be free from vexatious inquisition and intrusion.

This principle cannot apply to a case in which it is put in his own power to separate the place of his *business* from the place of his *habitation*; and, by designating the former by visible public marks, to avoid all intermeddling with the latter.

A distillery seldom forms a part of the *dwelling* of its proprietor, and even where it does, it depends on him to direct and limit the power of visiting and search, by marking out the particular *apartments* which are so employed.

But the requisition upon the distiller to set marks on the building or apartments which he makes use of in his business is one of the topics of complaint against the law. Such marks are represented as a dishonorable badge; and thus a regulation, designed as much to conform with the feelings of the citizen as for the security of revenue, is converted into matter of objection.

It is not easy to conceive what maxim of liberty is violated by requiring persons who carry on particular trades, which are made contributory to the revenue, to designate, by public marks, the places in which they are carried on. There can certainly be nothing more harmless, or less inconvenient, than such a regulation. The thing itself is frequently done by persons of various callings for the information of customers; and why it should become a hardship or grievance, if required for a public purpose, can with difficulty be imagined.

The supposed tendency of the act to injure morals seems to have relation to the oaths, which are, in a variety of cases, required, and which are liable to the objection that they give occasion to perjuries.

The necessity of requiring oaths is, whenever it occurs, matter of regret. It is certainly desirable to avoid them as often and as far as possible; but it is more easy to desire than to find a substitute. The requiring of them is not peculiar to the act in question; they are a common appendage of revenue laws, and are among the usual guards of those laws, as they are of public and private rights in courts of justice. They constantly occur in jury trials, to which the citizens of the United States are so much and so justly attached. The same objection, in different degrees, lies against them in both cases, yet it is not perceivable how they can be dispensed with in either.

It is remarkable that *both* the kinds of security to the revenue, which are to be found in the act, the oaths of parties and the inspection of officers are objected to. If they are both to be abandoned, it is not easy to imagine what security there can be for any species of revenue, which is to be collected from articles of consumption.

If precautions of this nature are inconsistent with liberty, and immoral, as there are very few indirect taxes which can be collected without them, the consequence must be that the entire or almost entire weight of the public burthens must, in the first instance, fall upon fixed and visible property, houses, and lands—a consequence which would be found, in

experiment, productive of great injustice and inequality, and ruinous to agriculture.

It has been suggested by some distillers, that both the topics of complaint which have been mentioned, might be obviated by a fixed rate of duty, adjusted according to a ratio compounded of the capacity of each still, and the number and capacities of the cisterns employed with it; but this, and every similar method, are objected to by other distillers, as tending to great inequality, arising from unequal supplies of the material at different times, and at different places, from the different methods of distillation practised by different distillers, and from the different degrees of activity in the business, which arise from capitals more or less adequate.

The result of an examination of this point appears to be, that every such mode, in cases in which the business is carried on upon an extensive scale, would, necessarily, be attended with considerable inequalities; and, upon the whole, would be less satisfactory than the plan which has been adopted.

It is proved by the fullest information, that, in regard to distillers which are rated in the law, according to the capacity of each still, the alternative of paying according to the quantity actually distilled, is received in many parts of the United States as essential to the equitable operation of the duty. And it is evident, that such an alternative could not be allowed but upon the condition of the party rendering upon oath an account of the quantity of spirits distilled by him, without entirely defeating the duty.

As to the charge, that the penalties of the act are too severe and oppressive, it is made in such general terms, and so absolutely without the specification of a single particular, that it is difficult to imagine where it points.

The Secretary, however, has carefully reviewed the provisions of the act, in this respect, and he is not able to discover any foundation for the charge.

The penalties it inflicts are in their nature the same with those which are common in revenue laws, and, in their degree, comparatively moderate.

Pecuniary fines, from fifty to five hundred dollars, and forfeiture of the article in respect to which there has been a failure to comply with the law, are the severest penalties inflicted upon delinquent parties, except in a very few cases: In two, a forfeiture of the value of the article is added to that of the article itself, and in some others, a forfeiture of the ship or vessel, and of the wagon or other instrument of conveyance, assistant in a breach of law, is likewise involved.

Penalties like these, for wilful and fraudulent breaches of an important law, cannot, truly, be deemed either unusual or excessive. They are less than those which secure the laws of impost, and as moderate as can promise security to any object of revenue which is capable of being evaded.

There appears to be but one provision in the law, which admits of a question whether the penalty prescribed may not partake of severity. It is that which inflicts the pains of perjury on any person who shall be convicted of "wilfully taking a false oath

or affirmation in any of the cases in which oaths or affirmations are required by the act.”

Precedents in relation to this particular, vary. In many of them, the penalties are less severe than for perjury, in courts of justice; in others, they are the same. The latter are, generally, of the latest date, and seem to have been the result of experience.

The United States have, in other cases, pursued the same principle as in the law in question. And the practice is certainly founded on strong reasons.

1st. The additional security which it gives to the revenue cannot be doubted. Many who would risk pecuniary forfeitures and penalties would not encounter the more disgraceful punishment annexed to perjury.

2d. There seems to be no solid distinction between one false oath in violation of law and right and another false oath in violation of law and right. A distinction in the punishments of different species of false swearing is calculated to beget false opinions concerning the sanctity of an oath; and by countenancing an impression, that a violation of it is less heinous in the cases in which it is less punished, it tends to impair in the mind that scrupulous veneration for the obligation of an oath which ought always to prevail, and not only to facilitate a breach of it in the cases which the laws have marked with less odium, but to prepare the mind for committing the crime in other cases.

So far is the law under consideration from being chargeable with particular severity, that there are to be found in it marks of more than common atten-

tion to prevent its operating severely or oppressively.

The 43d section of the act contains a special provision (and one which, it is believed, is not to be found in any law enacted in this country, prior to the present constitution of the United States), by which forfeitures and penalties incurred, without an intention of fraud or wilful negligence, may be mitigated or remitted.

This mild and equitable provision is an effectual guard against suffering or inconvenience, in consequence of undesigned transgressions of the law.

The 30th section contains a provision in favor of persons, who, though innocent, may accidentally suffer by seizures of their property (as in the execution of the revenue laws sometimes unavoidably happens), which is, perhaps, entirely peculiar to the law under consideration. Where there has even been a *probable* cause of seizure, sufficient to acquit an officer, the jury are to assess whatever damages may have accrued from an injury to the article seized, with an allowance for the detention of it, at the rate of six per centum per annum of the value, which damages are to be paid out of the public treasury.

There are other provisions of the act which mark the scrupulous attention of the Government to protect the parties concerned from inconvenience and injury, and which conspire to vindicate the law from imputations of severity or oppression.

The supposed tendency of the act to injure industry, and to interfere with the business of distilling, is endeavored to be supported by some general and

some special reasons, both having relation to the effect of the duty upon the manufacture.

Those of the first kind affirm generally, that duties on home manufactures are impolitic, because they tend to discourage them; that they are particularly so, when they are laid on articles manufactured from the produce of the country, because they have, then, the additional effect of injuring agriculture; that it is the general policy of nations to protect and promote their own manufactures, especially those which are wrought out of domestic materials; that the law in question interferes with this policy.

Observations of this kind admit of an easy answer. Duties on manufactures tend to discourage them, or not, according to the circumstances under which they are laid; and are impolitic, or not, according to the same circumstances. When a manufacture is in its infancy, it is impolitic to tax it, because the tax would be both unproductive, and would add to the difficulties which naturally impede the first attempts to establish a new manufacture, so as to endanger its success.

But when a manufacture (as in the case of distilled spirits in the United States) is arrived at maturity, it is as fit an article of taxation as any other. No good reason can be assigned why the consumer of a domestic commodity should not contribute something to the public revenue, when the consumer of a foreign commodity contributes to it largely. And, as a general rule, it is not to be disputed, that duties on articles of consumption are paid by the consumers.

To the manufacture itself, the duty is no injury, if an equal duty be laid on the rival foreign article. And when a greater duty is laid upon the latter than upon the former, as in the present instance, the difference is a bounty on the domestic article, and operates as an encouragement of the manufacture. The manufacturer can afford to sell his fabric the cheaper, in proportion to that difference, and is so far enabled to undersell and supplant the dealer in the foreign article.

The principle of the objection would tend to confine all taxes to imported articles, and would deprive the Government of resources, which are indispensable to a due provision for the public safety and welfare, contrary to the plain intention of the Constitution, which gives express power to employ those resources when necessary—a power which is found in all governments, and is essential to their efficiency, and even to their existence.

Duties on articles of internal production and manufacture form in every country the principal sources of revenue. Those on imported articles can only be carried to a certain extent, without defeating their object, by operating either as prohibitions, or as bounties upon smuggling. They are, moreover, in some degree temporary; for, as the growth of manufactures diminishes the quantum of duty on imports, the public revenue, ceasing to arise from that source, must be derived from articles which the national industry has substituted for those previously imported. If the Government cannot then resort to internal means for the additional supplies which the

exigencies of every nation call for, it will be unable to perform its duty, or, even to preserve its existence. The community must be unprotected, and the social compact be dissolved.

For the same reasons that a duty ought not to be laid on an article manufactured out of the country (which is the point most insisted upon), it ought not to be laid upon the produce itself, nor consequently upon the land, which is the instrument of that produce; because taxes are laid upon *land*, as the *fund* out of which the *income* of the proprietor is drawn; or, in other words, *on account of its produce*. There ought, therefore, on the principle of the objection, to be neither taxes on land, nor the produce of land, nor on articles manufactured from that produce. And if a nation should be in a condition to supply itself with its own manufactures, there could then be very little or no revenue; of course, there must be a want of the essential means of national justice and national security.

Positions like these, however well meant by those who urge them, refute themselves, because they tend to the dissolution of government by rendering it incapable of providing for the objects for which it is instituted.

However true the allegation, that it is, and ought to be, the prevailing policy of nations to cherish their own manufactures, it is equally true that nations in general lay duties for the purpose of revenue on their own manufactures; and it is obvious, to a demonstration, that it may be done without injury to them. The most successful nations in manufac-

tures have drawn the largest revenues from the most useful of them. It merits particular attention that ardent spirits are an article which has been generally deemed, and made use of, as one of the fittest objects of revenue, and to an extent, in other countries, which bears no comparison with what has been done in the United States.

The special reasons alluded to are of different kinds:

1. It is said that the act in question, by laying a smaller *additional* duty on foreign spirits than the duty on home-made spirits, has a tendency to discourage the manufacture of the latter.

This objection merits consideration, and, as far as it may appear to have foundation, ought to be obviated.

The point, however, seems not to have been viewed, in all its respects, in a correct light.

Before the present Constitution of the United States began to operate, the regulations of the different States respecting distilled spirits were very dissimilar. In some of them, duties were laid on foreign spirits only; in others, on domestic as well as foreign. The absolute duty, in former instances, and the difference of duty in the latter, was, upon an average, considerably less than the present difference in the duties on foreign and home-made spirits. If to this be added the effect of the uniform operation of the existing duties throughout the United States, it is easy to infer that the situation of our own distilleries is, in the main, much better, as far as they are affected by the laws, than it was previous to the

passing of any act of the United States upon the subject. They have, therefore, upon the whole, gained materially under the system which has been pursued by the National Government.

The first law of the United States on this head laid a duty of no more than eight cents per gallon on those of Jamaica proof. The second increased the duty on foreign spirits to twelve cents per gallon, of the lowest proof, and by certain gradations, to fifteen cents per gallon, of Jamaica proof. The last act places the duty at twenty cents per gallon, of the lowest proof, and extends it, by the like gradations, to twenty-five cents per gallon, of Jamaica proof; laying also a duty of eleven cents per gallon on home-made spirits, distilled from foreign materials of the lowest proof, with a like gradual extension to fifteen cents per gallon of Jamaica proof; and a duty of nine cents per gallon on home-made spirits, distilled from domestic materials of the lowest proof, with the like gradual extension to thirteen cents per gallon, of Jamaica proof.

If the transition had been immediate from the first to the last law, it could not have failed to have been considered as a change in favor of our own distilleries, as far as the rate of duty is concerned. The mean duty on *foreign spirits* by the first law was nine cents; by the last the mean *extra* duty on foreign spirits is, in fact, about eleven cents, as it regards spirits distilled from *foreign* materials, and about thirteen as it regards spirits distilled from *domestic* materials. In making this computation, it is to be adverted to that the four first degrees of

proof mentioned in the law correspond with the different kinds of spirits usually imported, while the generality of those made in the United States are of the lowest class of proof.

Spirits from domestic materials derived a double advantage from the last law; that is, from the increased rate of duty on foreign imported spirits, and from a higher rate of duty on home-made spirits of foreign materials.

But the intervention of the second law has served to produce in some places a different impression of the business than would have happened without it. By a considerable addition to the duties on foreign spirits, without laying any thing on those of home manufacture, it has served to give to the last law the appearance of taking away a part of the advantages previously secured to the domestic distilleries. It seems to have been overlooked that the second act ought, in reality, to be viewed only as an intermediate step to the arrangement finally contemplated by the Legislature; and that, as part of a system, it has, upon the whole, operated in favor of the national distilleries. The thing to be considered is the substantial existing difference in favor of the home manufacture as the law now stands.

The advantage, indeed, to the distillation of spirits from the produce of the country, arising from the difference between the duties on spirits distilled from foreign, and those distilled from domestic materials, is exclusively the work of the last act, and is an advantage which has not been properly appreciated by those distillers of spirits from home produce who

have complained of the law as hurtful to their manufacture.

Causes entirely foreign to the law itself have also assisted in producing misapprehension. The approximation of the price of home-made spirits to that of foreign spirits, which has of late taken place, and which is attributed to the operation of the act in question, is in a great degree owing to the circumstances which have tended to raise the price of molasses in the West India market, and to an extra importation of foreign spirits prior to the first of July last, to avoid the payment of the additional duty which then took place.

It is stated in the petition from Salem that previous to the last act, the price of domestic to foreign spirits was as 1s. 9d. to 3s. 4d. of the money of Massachusetts per gallon, and that since that act it has become as 3s. 3d. to 4s. 2d.

It is evident that a rise from 1s. 9d. to 3s. 3d. per gallon, which would be equal to twenty cents, is not to be attributed wholly to a duty of eleven cents. Indeed, if there were a concurrence of no other cause, the inference would be very different from that intended to be drawn from the fact, for it would evince a profit gained to the distiller of more than eighty per cent. on the duty.

It is, however, meant to be understood that this approximation of prices occasions a greater importation and consumption of foreign, and a less consumption of domestic, spirits than formerly. How far this may, or may not be the case, the Secretary is not now able to say with precision, but no facts have

come under his notice officially which serve to authenticate the suggestion; and it must be considered as possible that representations of this kind are rather the effect of apprehension than of experience. It would even be not unnatural that a considerable enhancement of the prices of the foreign article should have led to a greater consumption of the domestic article, as the cheaper of the two, though dearer itself than formerly.

But while there is ground to believe, that the suggestions which have been made on this point are, in many respects, inaccurate and misconceived, there are known circumstances which seem to render advisable some greater difference between the duties on foreign and on home-made spirits. These circumstances have been noticed in the report of the Secretary on the subject of manufactures, and an alteration has been proposed by laying two cents in addition upon imported spirits of the lowest proof, with a proportional increase on the higher proofs, and by deducting one cent from the duty on the lowest proof of home-made spirits, with a proportional diminution in respect to the higher proofs.

This alteration would bring the proportion of the duties nearly to the standard which the petitioner, Hendrick Doyer, who appears likely to be well informed on the subject, represents as the proper one to enable the distillation of Geneva to be carried on with the same advantage as before the passing of the act. He observes, that the duty on home-made Geneva being nine cents, the additional duty on foreign ought to have been twelve cents. By the alteration

proposed, the proportion will be as ten to eight, which is little different from that of twelve to nine.

It is worthy of remark, that the same petitioner states, that, previous to the passing of the act of which he complains, he "could sell his Geneva sixteen and a quarter per cent. under the price of Holland Geneva, but that he cannot do it at present, and in future, lower than fourteen per cent." If, as he also states, the quality of his Geneva be equal to that of Holland, and, if his meaning be, as it appears to be, that he can now afford to sell his Geneva lower, by fourteen per cent. than the Geneva of Holland, it will follow, that the manufacture of that article is in a very thriving train, even under the present rate of duties. For a difference of fourteen per cent. in the price is capable of giving a decided preference to the sale of the domestic article.

2. It is objected, that the duty, by being laid in the first instance upon the distiller, instead of the consumer, makes a larger capital necessary to carry on the business; and, in this country, where capitals are not large, puts the national distiller under disadvantages.

But this inconvenience, as far as it has foundation, in the state of things, is essentially obviated by the credits given. Where the duty is payable upon the quantity distilled, a credit is allowed, which cannot be less than six, and may extend to nine, months. Where the duty is charged on the capacity of the still, it is payable half yearly. Sufficient time is, therefore, allowed, to raise the duty from the sale of the article: which supersedes the necessity of a

greater capital. It is well known, that the article is one usually sold for cash, or at short credit. If these observations are not applicable to distilleries in the interior country, the same may be said, in a great degree, of the objection itself. The course of the business, in that quarter, renders a considerable capital less necessary than elsewhere. The produce of the distiller's own farm, or of the neighboring farms, brought to be distilled upon shares, or compensations in the article itself, constitute the chief business of the distilleries in the remote parts of the country. In the comparatively few instances in which they may be prosecuted as a regular business, upon a large scale, by force of capital, the observations which have been made will substantially apply.

The collection of the duty from the distiller, has, on the other hand, several advantages. It contributes to equality, by charging the article in the first stage of its progress, which diffuses the duty among all classes alike. It better secures the collection of the revenue, by confining the responsibility to a smaller number of persons, and simplifying the process. And it avoids the necessity of so great a number of officers, as would be required in a more diffused system of collection, operating immediately upon purchasers and consumers. Besides, that the latter plan would transfer whatever inconveniences may be incident to the collection from a smaller to a greater number of persons.

3. It is alleged that the inspection of the officers is injurious to the business of distilling, by laying open its secrets or mysteries.

Different distillers, there is no doubt, practise, in certain respects, different methods in the course of their business, and have different degrees of skill. But it may well be doubted whether, in a business so old and so much diffused as that of the distillation of spirits, there are at this day secrets of consequence to the possessors. There will, at least, be no hazard in taking it for granted that none such exist in regard to the distillation of rum from molasses or sugar, or of the spirits from grain usually called whiskey, or of brandies from the fruits of this country. The cases in which the allegations are made with most color apply to Geneva, and, perhaps, to certain cordials.

It is probable that the course of the business might and would always be such as, in fact, to involve no inconvenience on this score. But, as the contrary is affirmed, and as it is desirable to obviate complaint as far as it can be done consistently with essential principles and objects, it may not be unadvisable to attempt a remedy.

It is to be presumed that, if any secrets exist, they relate to a primary process, particularly the mixture of the ingredients; this, it is supposable, cannot take a greater time each day than two hours. If, therefore, the officers of inspection were enjoined to forbear their visits to the part of the distillery commonly made use of for such process, during a space not exceeding two hours in each day, to be notified by the distiller, there is ground to conclude that it would obviate the objection.

4. The regulations for marking of casks and ves-

sels, as well as houses and buildings, also furnish matter of complaint.

This complaint; as it regards houses and buildings, has been already attended to. But there is a light in which it is made that has not yet been taken notice of.

It is said that the requiring the doors of the apartments, as well as the outer door of each building, to be marked, imposes unnecessary trouble.

When it is considered how little trouble or expense attends the execution of this provision, in the first instance, and that the marks once set will endure for a great length of time, the objection to it appears to be without weight.

But the provision, as it relates to the apartments of buildings, has for its immediate object the convenience of the distillers themselves. It is calculated to avoid the very evil of an indiscriminate search of their houses and buildings by enabling them to designate the *particular apartments* which are employed for the purposes of their business, and to secure all others from inspection and visitation.

The complaint, as it respects the marking of casks and vessels, has somewhat more foundation. It is represented (and upon careful inquiry appears to be true) that, through long-established prejudice, home-made spirits of *equal quality* with foreign, if known to be home-made, will not command an equal price. This particularly applies to Geneva.

If the want of a distinction between foreign and home-made spirits were an occasion of fraud upon consumers, by imposing a worse for a better

commodity, it would be a reason for continuing it; but as far as such a distinction gives operation to a mere prejudice, favorable to a foreign and injurious to a domestic manufacture, it furnishes a reason for abolishing it.

Though time might be expected to remove the prejudice, the progress of the domestic manufacture, in the interval, might be materially checked.

It appears, therefore, expedient to remove this ground of complaint by authorizing the same marks and certificates both for foreign and for home-made Geneva.

Perhaps, indeed, it may not be unadvisable to vest somewhere a discretionary power to regulate the forms of certificates which are to accompany, and the particular marks which are to be set upon casks and vessels containing spirits, generally, as may be found convenient in practice.

Another source of objection with regard to the marking of casks is, that there is a general prohibition against defacing or altering the marks, and a penalty upon doing it, which prevents the using of the same casks more than once, and occasions waste, loss, and embarrassment.

It is conceived that this prohibition does not extend to the effacing of old marks, and placing of new ones, by the officers of the revenue, or in their presence, and by their authority. But as real inconveniences would attend a contrary construction, and there is some room for question, it appears desirable that all doubt should be removed by an explicit provision to enable the officer to efface old marks and

substitute new ones, when casks have been emptied of their former contents and are wanted for new use.

5. The requisition to keep an account from day to day of the quantity of spirits distilled is represented both as a hardship and impossible to be complied with.

But the Secretary is unable to perceive that it can justly be viewed either in the one or in the other light. The trouble of setting down, in the evening, the work of the day in a book prepared for and furnished to the party, must be inconsiderable, and the doing of it would even conduce to accuracy in business.

The idea of impracticability must have arisen from some misconception. It seems to involve a supposition that something is required different from the truth of the fact. Spirits distilled are usually distinguished into high wines, proof spirits, and low wines. It is certainly possible to express each day the quantity of each kind produced, and, where one kind is converted into another, to explain it by brief notes, showing in proper columns the results in those kinds of spirits which are ultimately prepared for sale.

A revision is now making of the forms at first transmitted, and it is not doubted that it will be easy to obviate the objection of impracticability.

On full reflection, the Secretary is of opinion that the requisition in this respect is a reasonable one, and that it is of importance to the due collection of the revenue, especially in those cases where, by the alternative allowed in favor of country distilleries,

the oath of a party is the only evidence of the quantity produced. It is useful in every such case to give the utmost possible *precision* to the object which is to be attested.

6. It is alleged as a hardship, that distilleries are held responsible for the duties on spirits which are exported, till certain things, difficult to be performed, are done, in order to entitle the exporter to the drawback. And the Government relies on the bond of the exporter for a fulfilment of the conditions upon which the drawback is allowed.

This is a misapprehension. The drawback is at all events to be paid in six months, which is as early as the duty can become payable, and frequently earlier than it does become payable.

An explanation to the several collectors of this point, which has taken place since the complaint appeared, will have removed the cause of it.

The same explanation will obviate another objection, founded on the supposition that the bond of the distiller and that of the exporter are for a like purpose. The latter is merely to secure the landing of the goods in a foreign country, and will often continue depending after every thing relative to duty and drawback has been liquidated and finished.

7. It is an article of complaint that no drawback is allowed in case of shipwreck, when spirits are sent from one port to another in the United States.

There does not occur any objection to a provision for making an allowance of that kind, which would tend to alleviate misfortune and give satisfaction.

8. The necessity of twenty-four hours' notice, in

order to the benefit of drawback on the exportation of spirits, and the prohibition to remove them from a distillery after sunset, except in the presence of an officer, are represented as embarrassments to business.

The length of notice required appears greater than is necessary. It is not perceived that any inconvenience could arise from reducing the time to six hours.

But it is not conceived to be necessary or expedient to make an alteration in the last-mentioned particular. The prohibition is of real consequence to the security of the revenue. The course of business will readily adapt itself to it, and the presence of an officer in extraordinary cases will afford due accommodation.

9. It is stated as a hardship, that there is no allowance for leakage and wastage, in the case of spirits shipped from one State to another.

The law for the collection of the duties on imports and tonnage allows two per cent. for leakage, on spirits imported. A similar allowance on home-made spirits at the distillery does not appear less proper.

10. It is mentioned as a grievance, that distillers are required to give bond, *with surety*, for the amount of the duties, and that the sufficiency of the surety is made to depend on the discretion of the chief officer of inspection.

The requiring of sureties can be no more a hardship on distillers, than on importing merchants, and every other person to whom the public afford a

credit. It is a natural consequence of the credit allowed; and a very reasonable condition of the indulgence, which, without this precaution, might be imprudent, and injurious to the United States.

The party has his option to avoid it by prompt payment of the duty, and is even entitled to an abatement, which may be considered as a premium, if he elects to do so.

As to the second point, if sureties are to be given, there must be some person on the part of the Government to judge of their sufficiency, otherwise the thing itself would be nugatory; and the discretion cannot be vested more conveniently for the party, than in the chief officer of inspection for the survey.

A view has now been taken of most, if not of all, the objections of a general nature, which have appeared.

Some few, of a local complexion, remain to be attended to.

The representation signed Edward Cook, chairman, as on behalf of the four most western counties of Pennsylvania, states that the distance of that part of the country from a market for its produce, leads to a necessity of distilling the grain, which is raised, as a principal dependence of its inhabitants; which circumstance, and the scarcity of cash, combine to render the tax in question unequal, oppressive, and particularly distressing to them.

As to the circumstance of equality, it may safely be affirmed to be impracticable to devise a tax which shall operate with exact equality upon every part of the community. Local and other circum-

stances will inevitably create disparities, more or less great.

Taxes on consumable articles have, upon the whole, better pretensions to equality than any other. If some of them fall more heavily on particular parts of the community, others of them are chiefly borne by other parts. And the result is an equalization of the burthen as far as it is attainable. Of this class of taxes it is not easy to conceive one which can operate with greater equality than a tax on distilled spirits. There appears to be no article, as far as the information of the Secretary goes, which is an object of more equal consumption throughout the United States.

In particular districts, a greater use of cider may occasion a smaller consumption of spirits; but it will not be found, on a close examination, that it makes a material difference. A greater or less use of ardent spirits, as far as it exists, seems to depend more on relative habits of sobriety or intemperance than on any other cause.

As far as habits of less moderation, in the use of distilled spirits, should produce inequality anywhere, it would certainly not be a reason with the Legislature either to repeal or lessen a tax, which, by rendering the article dearer, might tend to restrain too free an indulgence of such habits.

It is certainly not obvious how this tax can operate particularly unequally upon the part of the country in question. As a general rule it is a true one, that duties on articles of consumption fall on the consumers, by being added to the price of the

commodity. This is illustrated, in the present instance, by facts. Previous to the law laying a duty on home-made spirits, the price of whiskey was about thirty-eight cents; it is now about fifty-six cents. Other causes may have contributed in some degree to this effect, but it is evidently to be ascribed chiefly to the duty.

Unless, therefore, the inhabitants of the counties which have been mentioned are greater consumers of spirits than those of other parts of the country, they cannot pay a greater proportion of the tax. If they are, it is their interest to become less so. It depends on themselves, by diminishing the consumption, to restore equality.

The argument that they are obliged to convert their grain into spirits, in order to transportation to distant markets, does not prove the point alleged. The duty on all they send to those markets will be paid by the purchasers. They will still pay only upon their own consumption.

As far as an advance is laid upon the duty, or as far as the difference of duty between whiskey and other spirits tends to favor a greater consumption of the latter, they, as greater manufacturers of the article, supposing this fact to be as stated, will be proportionably benefited.

The duty on home-made spirits from domestic materials, if paid by the gallon, is nine cents. From the communications which have been received since the passing of the act, it appears that, paying the rate annexed to the capacity of the still, and using great diligence, the duty may be, in fact, reduced to

six cents per gallon. Let the average be taken at seven and a half cents, which is probably higher than is really paid.

Generally speaking, then, for every gallon of whiskey which is consumed, the consumer may be supposed to pay seven and a half cents; but for every gallon of spirits, distilled from foreign materials, the consumer pays at least eleven cents, and for every gallon of foreign spirits, at least twenty cents. The consumer, therefore, of foreign spirits pays nearly three times the duty, and the consumer of home-made spirits, from foreign materials, nearly fifty per cent. more duty, on the same quantity, than the consumer of spirits from domestic materials, exclusive of the greater price, in both cases, which is an additional charge upon each of the two first-mentioned classes of consumers.

When it is considered that $\frac{8}{11}$ parts of the whole quantity of spirits consumed in the United States are foreign, and $\frac{7}{11}$ are of foreign materials, and that the inhabitants of the Atlantic and midland counties are the principal consumers of these more highly taxed articles, it cannot be inferred that the tax under consideration bears particularly hard on the inhabitants of the Western country.

This may serve as an exemplification of a general proposition, of material consequence, namely, that if the former descriptions of citizens are able, from situation, to obtain more for their produce than the latter, they contribute proportionally more to the revenue. Numerous other examples, in confirmation of this, might be adduced.

As to the circumstance of scarcity of money, as far as it can be supposed to have foundation, it is as much an objection to any other tax as the one in question. The weight of the tax is not certainly such as to involve any peculiar difficulty. It is impossible to conceive that nine cents per gallon on distilled spirits, which is stating it at the highest, can, from the magnitude of the tax, distress any part of the country, which has an ability to pay taxes at all—enjoying, too, the unexampled advantage of a total exemption from taxes on houses, lands, or stock.

The population of the United States being about four millions of persons, and the quantity of spirits annually consumed between ten and eleven millions of gallons, the yearly proportion to each family, if consisting of six persons, which is a full ratio, would be about sixteen gallons, the duty upon which would be less than *one dollar and a half*. The citizen who is able to maintain a family, and who is the owner or occupier of a farm, cannot feel any inconvenience from so light a contribution; and the industrious poor, whether artisans or laborers, are usually allowed spirits, or an equivalent, in addition to their wages.

The Secretary has no evidence to satisfy his mind that a real scarcity of money will be found, on experiment, a serious impediment to the payment of the tax anywhere. In the quarter where this complaint has particularly prevailed, the expenditures, for the defence of the frontier, would seem alone sufficient to obviate it. To this it is answered that

the contractors for the supply of the army operate with goods, and not with money. But this still tends to keep at home whatever money finds its way there. Nor is it a fact, if the information of the Secretary be not materially erroneous, that the purchases of the contractors of flour, meat, etc., are *wholly* with goods. But, if they were, the Secretary can aver that more money has, in the course of the last year, been sent into the Western country from the treasury, in specie and bank-bills, which answer the same purpose, for the pay of the troops and militia, and for the quartermaster's supplies, than the whole amount of the tax in the four western counties of Pennsylvania and the district of Kentucky is likely to equal in four or five years. Similar remittances are likely to be made in future.

Hence, the Government itself furnishes, and, in all probability, will continue to furnish, the means of paying its own demands, with a surplus which will sensibly foster the industry of the parties concerned, if they avail themselves of it, under the guidance of a spirit of economy and exertion.

Whether there be no part of the United States in which the objection of want of money may truly exist, in a degree to render the payment of the duty seriously distressing to the inhabitants, the Secretary is not able to pronounce. He can only express his own doubt of the fact, and refer the matter to such information as the members of any district, so situated, may have it in their power to offer to the legislative body.

Should the case appear to exist, it would involve

the necessity of a measure, in the abstract, very ineligible, that is, the receipt of the duty in the article itself.

If an alternative of this sort were to be allowed, it would be proper to make it the duty of the party paying *to deliver the article at the place in each county* where the office of inspection is kept, and to regulate the price according to such a standard as would induce a preference of paying in cash, except from a real impracticability of obtaining it.

In regard to the petition from the district of Kentucky, after what has been said with reference to other applications, it can only be necessary to observe that the exemption which is sought by that petition is rendered impracticable by an express provision of the Constitution, which declares that "all duties, imposts, and excises shall be uniform throughout the United States."

In the course of the foregoing examination of the objections which have been made to the law, some alterations have been submitted for the purpose of removing a part of them. The Secretary will now proceed to submit such further alterations as appear to him advisable, arising either from the suggestions of the officers of the revenue or from his own reflections.

1. It appears expedient to alter the distinction respecting distilleries from domestic materials in cities, towns, and villages, so as to confine it to one or more stills worked at the same distillery, the capacity or capacities of which together do not fall short of four hundred gallons.

The effectual execution of the present provisions respecting distilleries from home materials in cities, towns, and villages would occasion an inconvenient multiplication of officers, and would, in too great a degree, exhaust the product of the duty in the expense of collection. It is also probable that the alteration suggested would also conduce to public satisfaction.

2. The present provisions concerning the entering of stills are found by experience not to be adequate, and, in some instances, not convenient.

It appears advisable that there shall be one office of inspection for each county, with authority to the supervisor to establish more than one, if he shall judge it necessary for the accommodation of the inhabitants; and that every distiller, or person having or keeping a still, shall be required to make entry of the same at some office of inspection for the county, within a certain determinate period in each year. It will be proper, also, to enjoin upon every person, who, residing within the county, shall procure a still, or who, removing into a county, shall bring into it a still, within twenty days after such procuring or removal, and before he or she begins to use the still, to make entry at the office of inspection. Every entry, besides describing the still, should specify in whose possession it is, and the purpose for which it is intended, as, whether for sale or for use in distilling; and in the case of a removal of the person from another place into the county, shall specify the place from which the still shall have been brought. A forfeiture of the still ought, in

every case in which an entry is required, to attend an omission to enter.

This regulation, by simplifying the business of entering stills, would render it easier to comprehend and comply with what is required, would furnish the officers with a better rule for ascertaining delinquencies, and, by avoiding to them a considerable degree of unnecessary trouble, will facilitate the retaining of proper characters in the offices of collectors.

3. It is represented that difficulties have, in some instances, arisen, concerning the persons responsible for the duty. The apparent not being always the real proprietor, an opportunity for collusion is afforded; and without collusion the uncertainty is stated as a source of embarrassment.

It also, sometimes, happens that certain itinerant persons, without property, complying with the preliminary requisitions of the law as to entry, etc., erect and work stills for a time, and before a half yearly period of payment arrives, remove and evade the duty.

It would tend to remedy these inconveniences if possessors and proprietors of stills were made jointly and severally liable, and if the duty were made a *specific lien* on the still itself; if, also, the proprietor of the land upon which any still may be worked should be made answerable for the duty, except where it is worked by a lawful and *bona-fide* tenant of the land of an estate not less than for a term of one year, or unless such proprietor can make it appear that the possessor of the still was, during the whole time, without his privity or connivance, an

intruder or trespasser on the land; and if, in the last place, any distiller, about to remove from the division in which he is, should be required, previous to such removal, to pay the tax for the year, deducting any prior payments, or give bond, with approved security, conditioned for the payment of the full sum for which he or she should be legally accountable to the end of the year, to the collector of the division to which the removal shall be, rendering proof thereof, under the hand of the said collector, within six months after the expiration of the year.

As well with a view to the forfeiture of the still for non-entry, as to give effect to a *specific lien* of the duty (if either or both of these provisions should be deemed eligible), it will be necessary to enjoin it upon the officers of the revenue to identify, by proper marks, the several stills which shall have been entered with them.

4. The exemptions granted to stills of the capacity of fifty gallons and under, by the 36th section of the law, appear, from experience, to require revision.

Tending to produce inequality, as well as to frustrate the revenue, they have excited complaint. It appears, at least, advisable, that the obligation to enter, as connected with that of *paying duty*, should extend to stills of all dimensions, and that it should be enforced, in every case, by the same penalty.

5. The 28th section of the act makes provision for the seizure of spirits, unaccompanied with marks and certificates, in the cases in which they are required; but as they are required only in certain cases, and there is no method of distinguishing the

spirits, in respect to which they are necessary, from those in respect to which they are not necessary, the provision becomes nugatory, because an attempt to enforce it would be oppressive. Hence, not only a great security for the due execution of the law is lost, but seizures very distressing to unoffending individuals must happen, notwithstanding great precaution to avoid them.

It would be, in the opinion of the Secretary, of great importance to provide, that all spirits whatsoever, in casks or vessels of the capacity of twenty gallons and upwards, should be marked and certified, on pain of seizure and forfeiture, making it the duty of the officers to furnish the requisite certificates *gratis*, to distillers and dealers, in all cases in which the law shall have been complied with.

In those cases in which an occasional recurrence to the officers for certificates might be inconvenient, blanks may be furnished, to be accounted for. And it may be left to the parties themselves, in the like cases, to mark their own casks or vessels in some simple manner, to be defined in the law. These cases may be designated generally. They will principally relate to dealers who, in the course of their business, draw off spirits from larger to smaller casks, and to distillers who pay according to the capacities of their stills.

As a part of a regulation of this sort it will be necessary to require that within a certain period, sufficiently long to admit of time to know and comply with the provision, entry shall be made by all dealers and distillers of all spirits in their respective

possessions, which shall not have been previously marked and certified according to law, in order that they may be marked and certified as old stock.

The regulations here proposed, though productive of some trouble and inconvenience in the outset, will be afterwards a security both to individuals and to the revenue.

6. At present spirits may not be imported from abroad in casks of less capacity than fifty gallons. The size of these casks is smaller than is desirable, so far as the security of the revenue is concerned, and there has not occurred any good objection to confining the importation to larger casks,—that is to say, to casks of not less than ninety gallons. Certainly, as far as respects rum from the West Indies, it may be done without inconvenience, being conformable to the general course of business. The result of examination is that the exception as to this particular, in favor of gin, may be abolished. Should any alteration on this subject take place, it ought not to begin to operate till after the expiration of the year.

7. There is ground to suppose that the allowance of drawback, without any limitation as to quantity, has been abused. It is submitted that none be made on any less quantity than one hundred and fifty gallons.

8. There is danger that facility may be given to illicit importations by making use of casks which have been once regularly marked, and the certificates which have been issued with them, to cover other spirits than those originally contained in such

casks. Appearances which countenance suspicion on this point have been the subjects of representation from several quarters.

The danger may be obviated by prohibiting the importation in such marked casks on pain of forfeiture both of the spirits and of any ship or vessel in which they may be brought. A prohibition of this sort does not appear liable to any good objection.

9. The duty of sixty cents per gallon of the capacity of a still was founded upon a computation that a still of any given dimensions, worked *four* months in the year, which is the usual period of country distillation, would yield a quantity of spirits, which, at the rate of nine cents per gallon, would correspond with sixty cents per gallon of the capacity of the still. It will deserve consideration whether it will not be expedient to give an option to country distillers, at the annual entry of their stills, to take out a license for any portion of the year which they may respectively think fit, and to pay at the rate of twelve and a half cents per gallon of the capacity, per month, during such period. This to stand in lieu of the alternative of paying by the gallon distilled; it would obviate in this case the necessity of accounting upon oath, and would leave it in the power of each distiller to cover the precise time he meant to work his still with a license, and to pay for that time only. A strict prohibition to distil at any other time than that for which the license was given would be of course necessary to accompany the regulation as far as regarded any such licensed distiller.

The only remaining points which have occurred, as proper to be submitted to the consideration of the Legislature, respect the officers of the revenue.

It is represented that, in some instances, from the ill humor of individuals, the officers have experienced much embarrassment in respect to the filling of stills with water to ascertain their capacity, which, upon examination, is found the most simple and practicable mode. The proprietors have, in some instances, not only refused to aid the officers, but have even put out of their way the means by which the filling might be conveniently accomplished.

It would conduce to the easy execution of the law, and to the very important purpose of retaining and procuring respectable characters as collectors, if the proprietors and possessors of stills were required to aid them in the execution of this part of their duty, or to pay a certain sum as a compensation for the doing of it.

The limits assigned in the law respecting compensations are found in practice essentially inadequate to the object.

This is so far the case that it becomes the duty of the Secretary to state that greater latitude in this particular is *indispensable to the effectual execution of the law*.

In the most productive divisions the commissions of the collectors afford but a moderate compensation. In the greatest part of them the compensation is glaringly disproportioned to the service; in many of them it falls materially short of the expense of the officer.

It is believed that in no country whatever has the collection of a similar duty been effected within the limit assigned. Applying in the United States to a *single* article only, and yielding consequently a less total product than where many articles are comprehended, the expense of collection must of necessity be proportionally greater.

It appears to the Secretary that seven and a half per cent. of the total product of the duties on distilled spirits, foreign as well as domestic, and not less, will suffice to defray the compensations to officers and other expenses incidental to the collection of the duty. This is to be understood as supplemental to the present custom-house expenses.

It is unnecessary to urge to the House of Representatives how essential it must be to the execution of the law, in a manner effectual to the purposes of the Government and satisfactory to the community, to secure by competent though moderate rewards the *diligent services* of respectable and trustworthy characters.

All which is humbly submitted.

ALEXANDER HAMILTON,
Secretary of the Treasury.

ADDITIONAL SUPPLIES FOR 1792

Communicated to the House of Representatives, March 17, 1792.

TREASURY DEPARTMENT, March 16, 1792.

The Secretary of the Treasury, pursuant to a resolution of the House of Representatives, of the

8th instant, directing the said Secretary to report to the House his opinion of the best mode of raising the additional supplies requisite for the ensuing year, respectfully submits the following report:

The sum which is estimated to be necessary for carrying into effect the purposes of the act for making further and more effectual provision for the protection of the frontiers of the United States, beyond the provision made by the act making appropriations for the support of Government for the year 1792, is \$675,950.08.

The returns which have been received at the treasury subsequent to the Secretary's report of the 23d of January last, among which are those of some principal ports, afford satisfactory ground of assurance that the quarter ending the last of December was considerably more productive than it was supposed likely to prove, authorizing a reliance that the revenues, to the end of the year 1791, will yield a surplus of \$150,000, which may be applied in part of the sum of \$675,950.08, above stated to be necessary.

Provision remains to be made for the residue of this sum, namely, \$525,950.08.

Three expedients occur to the option of the Government for providing this sum.

One, to dispose of the interest to which the United States are entitled in the Bank of the United States. This, at the present market price of bank stock, would yield a clear gain to the Government much more than adequate to the sum required.

Another, to borrow the money upon an establishment of funds, either merely commensurate with the interest to be paid, or affording a surplus which will discharge the principal by instalments within a short time.

The third is to raise the amount by taxes.

The first of these three expedients appears to the Secretary altogether unadvisable.

First. It is his present opinion that it will be found, in various respects, permanently the interest of the United States to retain the interest to which they are entitled in the bank. But,

Secondly. If this opinion should not be well founded, it would be improvident to dispose of it at the present juncture, since, upon a comprehensive view of the subject, it can hardly admit of a doubt that its future value, at a period not very distant, will be considerably greater than its present, while the Government will enjoy the benefit of whatever dividends shall be declared in the interval. And,

Thirdly. Whether it shall be deemed proper to retain or dispose of this interest, the most useful application of the proceeds will be as a fund for extinguishing the public debt. A necessity of applying it to any different object, if it should be found to exist, would be matter of serious regret.

The second expedient would, in the judgment of the Secretary, be preferable to the first.

For this, the following reason, if there were no other, is presumed to be conclusive, namely, that the probable increase of the value of the stock may itself be estimated as a considerable, if not a suffi-

cient, fund for the repayment of the sum which might be borrowed.

If the measure of a loan should be thought eligible, it is submitted, as most advisable, to accompany it with a provision sufficient not only to pay the interest, but to discharge the principal within a short period. This will at least mitigate the inconvenience of making an addition to the public debt.

But the result of mature reflection is, in the mind of the Secretary, a strong conviction that the last of the three expedients which have been mentioned, is to be preferred to either of the other two.

Nothing can more interest the national credit and prosperity than a constant and systematic attention to husband all the means previously possessed for extinguishing the present debt, and to avoid as much as possible the incurring of any new debt.

Necessity alone, therefore, can justify the application of any of the public property, other than the annual revenues, to the current service, or to the temporary and casual exigencies of the country, or the contracting of an additional debt, by loans, to provide for those exigencies.

Great emergencies, indeed, might exist, in which loans would be indispensable. But the occasions which will justify them must be truly of that description.

The present is not of such a nature. The sum to be provided is not of magnitude enough to furnish the plea of necessity.

Taxes are never welcome to a community. They

seldom fail to excite uneasy sensations, more or less extensive. Hence, a too strong propensity in the governments of nations to anticipate and mortgage the resources of posterity, rather than encounter the inconveniences of an increase of taxes.

But this policy, when not dictated by very peculiar circumstances, is of the worst kind. Its obvious tendency is, by enhancing the permanent burthens of the people, to produce lasting distress, and its natural issue is in national bankruptcy.

It will be happy if the councils of this country, sanctioned by the voice of an enlightened community, shall be able to pursue a different course.

Yielding to this impression, the Secretary proceeds to state, for the consideration of the House, the objects which have occurred to him as most proper to be resorted to for raising the requisite sum by taxes.

From the most careful view which he is able to take of all the circumstances that at the present juncture naturally enter into consideration, he is led to conclude that the most eligible mode in which the necessary provision can at this time be made is by some additional duties on imported articles.

This conclusion is made with reluctance, for reasons which were noticed upon a former occasion, and from the reflection that frequent and unexpected alterations in the rates of duties on the objects of trade, by inducing uncertainty in mercantile speculations and calculations, are really injurious to commerce, and hurtful to the interests of those who carry it on.

The stability of the duties to be paid by the merchants, is, in fact, of more consequence to them than their quantum, if within reasonable bounds.

It were, therefore, much to have been wished, that so early a resort to new demands, on that class of citizens, could have been avoided, and, especially, that they could have been deferred until a general tariff could have been maturely digested, upon principles which might, with propriety, render it essentially stationary.

But, while there are these motives to regret, there are others of a consoling tendency, some of which indicate that an augmentation of duties, at the present juncture, may have the effect of lessening some public evils, and producing some public benefits.

It is a pleasing fact, if the information of the Secretary be not very erroneous, that the improved state of the credit of this country enables our merchants to procure the supplies which they import from abroad upon much more cheap and advantageous terms than heretofore; a circumstance which must alleviate to them the pressure of somewhat higher rates of duty, and must contribute, at the same time, to reconcile them to burthens, which, being connected with an efficacious discharge of the duty of the Government, are of a nature to give solidity and permanency to the advantages they enjoy under it.

It is certain, also, that a spirit of manufacturing prevails at this time, in a greater degree than it has done at any antecedent period; and, as far as an

increase of duties shall tend to second and aid this spirit, they will serve to promote essentially the industry, the wealth, the strength, the independence, and the substantial prosperity of the country.

The returns for a year, ending with the thirtieth of September last, an abstract of which is in preparation to be communicated to the Legislature, evince a much increased importation during that year, greater far than can be referred to a naturally increasing demand from the progress of population, and announce a probability of a more than proportional increase of consumption; there being no appearance of an extraordinary abundance of goods in the market. If, happily, an extension of the duties shall operate as a restraint upon excessive consumption, it will be a salutary means of preserving the community from future embarrassment, public and private. But, if this should not be the case, it is at least prudent in the Government to extract from it the resources necessary for current exigencies, rather than postpone the burthen to a period when that very circumstance may cause it to be more grievously felt.

These different considerations unite with others, which will suggest themselves, to induce, in the present state of things, a preference of taxes on imported articles to any other mode of raising the sum required.

It is, therefore, respectfully submitted, that the existing duties on the articles hereafter enumerated, be repealed, and that, in place of them, the following be laid, viz.:

Additional Supplies

415

WINES.

	Per Gall.
Madeira, of the quality of London particular	\$o 56
Madeira, of the quality of London market	49
Other Madeira wine	40
Sherry	33
St. Lucar	30
Lisbon	25
Oporto	25
Teneriffe and Fayal	20
All other wines, 40 per centum ad valorem.	

SPIRITS.

Those distilled wholly or chiefly from grain.

	Per Gall.
Of the first class of proof	\$o 28
Of the second " "	29
Of the third " "	31
Of the fourth " "	34
Of the fifth " "	40
Of the sixth " "	50

OTHER DISTILLED SPIRITS.

	Per Gall.
Of the second class of proof, and under	\$o 24
Of the third " "	27
Of the fourth " "	31
Of the fifth " "	37
Of the sixth " "	45
Beer, ale, and porter	per gallon, o o8
Steel	per cwt., 1 00
Nails	per lb., 2
Cocoa	" 2
Chocolate	" 3
Playing cards	per pack, 25
Shoes and slippers of silk	20

Shoes and slippers of stained or colored leather (other than black), for men and women . . .	\$0 10
Ditto for children	7
All other shoes and slippers (for men and women), clogs and goloshes	10
All other shoes and slippers for children	7

ARTICLES AD VALOREM.

15 per cent. ad valorem.

China wares.

Looking-glass, window, and other glass, and all manufactures of glass, black quart bottles excepted.

Muskets.

Pistols.

Swords, cutlasses, hangers, and other fire- and side-arms

Starch.

Hair powder.

Wafers.

Glue.

10 per cent. ad valorem.

Cast, slit, and rolled iron, and generally all manufactures of iron, steel, tin, pewter, copper, brass, or of which either of these metals is the article of chief value (not being otherwise particularly enumerated).

Leather, tanned and tawed, and all manufactures of leather, or of which leather is the article of chief value (not being otherwise particularly enumerated).

Cabinet wares.

Medicinal drugs, except those commonly used in dyeing.

Hats, caps, and bonnets, of every sort.

Gloves and mittens.

Stockings.

Millinery, ready made.

Artificial flowers, feathers, and other ornaments for women's head-dresses.

Fans.

Dolls, dressed and undressed.

Toys.

Buttons of every kind.

Carpets and carpeting, mats and floor-cloths.

Sail-cloth.

Sheathing and cartridge paper.

All powders, pastes, balls, balsams, ointments, oils, waters, washes, tinctures, essences, liquors, or other preparation or composition, commonly called sweet scents, odors, perfumes, or cosmetics.

All dentifrice, powders, tinctures, preparations, or compositions, whatsoever, for the teeth or gums.

Printed books, except those specially imported for a college, academy or other public or incorporated seminary of learning or institution, which shall be wholly exempted from duty.

The foregoing duties to be permanently established, and to be appropriated, in the first place, to the payment of the interest of the public debt; in the second, to such other grants and appropriations as have been heretofore made; and in the third, to the purposes of the act for making further and more effectual provision for the protection of the frontiers of the United States.

An addition of two and a half per cent. ad valorem to be made to the duty on all goods heretofore rated at five per centum ad valorem.

This addition to be temporary, and accordingly to be so established as that it shall not continue

longer than till the present Indian war shall terminate, and the expenses of carrying it on shall have been defrayed, which will of course include the reimbursement of any sums that may have been borrowed by way of anticipation of the product of the duties.

It is represented that the present duty on salt operates unequally, from the considerable difference in weight, in proportion to quantity, of different kinds of salt; a bushel weighing from about fifty-six to upward of eighty weight. It would have an equalizing effect if the bushel were defined by weight; and if fifty-six pounds were taken as the standard, a valuable accession to the revenue would result.

This regulation is, therefore, submitted as a resource upon the present occasion; the rate of duty to remain as it is.

It will be a reasonable accommodation to trade, if it is made a part of this arrangement, to extend the credit for the duty on salt to a longer term. It is an article which, from the circumstances of its importation, frequently lies on hand for a considerable time; and in relation to the fisheries, is usually sold upon a credit of several months.

Some remarks may be proper in regard to the proposed duties. Those on spirits and wines may appear high. They are, doubtless, considerable. But there are precedents, elsewhere, of much higher duties on the same articles. And it is certainly, in every view, justifiable to make a free use of them for the purpose of revenue.

Wines, generally speaking, are the luxury of classes

of the community who can afford to pay a considerable duty upon them.

It has appeared advisable to adhere to the idea of a specific duty per quantity on all the species of wines in most common consumption in the country, and those most susceptible of precise designation, as affording greatest certainty to the revenue; and to adopt a general ad-valorem rate for other kinds, proportioned to the specific duties. This rate is forty per cent.

The distinction has proceeded from the difficulty of a precise enumeration of all the other kinds of wine which are, and may be, imported, and of such an adjustment of specific rates as will bear some reasonable proportion to the value of the article. The present lowest rate of duty on wines amounts to two hundred and three hundred per cent. on the value of certain kinds, which may be considered as equivalent to a prohibition.

While, therefore, ideas of proportion will be better consulted than heretofore by the proposed arrangement, it is probable that the revenue will be benefited, rather than injured, by a reduction of the duties on low-priced wines.

The considerations which render ardent spirits a proper object of high duties have been repeatedly dwelt upon. It may be added, that it is a familiar and a just remark that the peculiarly low price of ardent spirits in this country is a great source of intemperance.

To bring the price of the article more nearly to a level with the price of it in other markets by an

increase of duty, while it will contribute to the advancement of the revenue, cannot but prove, in other respects, a public benefit.

The rates proposed will be still moderate, compared with examples in other countries; and the article is of a nature to enable the importer, without difficulty, to transfer the duty to the consumer.

A discrimination is suggested in respect to duties on spirits distilled from grain. To this there have been two inducements: one, that the difference in the duty is conformable to the difference between the cost of the grain spirits usually imported, and that of West India rum. Another, that it is in a particular manner the interest of the United States to favor the distillation of its own grain, in competition with foreign spirits from the same material. In the second division of spirits, the first class of proof is dropped, because none of it comes from the West Indies, and because any other spirits, usually imported, which may be of so low a proof, are higher priced, even than some of the higher proofs of West India spirits. The dropping of that class of proof, therefore, in this case, is favorable to the revenue, and favorable to equality.

Several of the other specific duties which are proposed, besides the inducements to them as items of revenue, are strongly recommended by considerations which have been stated in the report of the Secretary, on the subject of manufactures. The same report states inducements to a 15 per cent. duty on some of the articles which are mentioned, as proper to be comprised under that rate.

With regard to china and glass, there are two weighty reasons for a comparatively high duty upon them. The use of them is very limited, except by the wealthier classes; and both their bulk and liability to damage in transportation are great securities against evasions of the revenue. It will, however, merit consideration, whether, for the accommodation of importers, a longer term of credit ought not to be allowed on these articles.

A duty of two cents per pound on cocoa is less, in proportion to the value, than the present duty on coffee. As an extensive article of consumption, it is a productive one of revenue.

The duty on playing-cards can give rise to no question except as to the practicability of a safe collection. In order to this, it will be proper to super-add certain precautions, which will readily occur in regulating the details of a bill for the purpose. A similar attention will be requisite in regard to the duties on wines. The employment of marks and certificates may advantageously be extended to this article.

The rate of 10 per centum ad valorem, it is hoped, will not be deemed immoderate in relation to the articles to which it is proposed to apply it. It is difficult to assign rules for what ought to be considered as a just standard. But, after the best consideration which the Secretary has been able to bestow upon it, he cannot discover that any real inconvenience is likely, permanently, to result from the extension of that rate to the cases proposed.

The addition of $2\frac{1}{2}$ per cent. to the duty on the mass of articles now rated at five, will constitute an important, though not an excessive, augmentation. Nevertheless, it is proposed that it shall be only temporary; and there is reasonable ground of expectation, that the cause for having recourse to it will not be of very long continuance.

It will not have escaped the observation of the House, that the duties which were suggested in the Secretary's report on that subject, as encouragements to manufactures, are, for the most part, included among the objects of this report.

It may tend to avoid future embarrassment, if such abolitions and drawbacks as shall be deemed expedient, with a view to promoting manufactures, shall accompany the establishment and appropriation of whatever further duties may be laid, for the object in contemplation. And it may be found convenient to qualify the appropriation of the surplus which is to be applied to that object, so as to let in such other appropriations, during the session, as occurrences may suggest.

An estimate of the additional revenue which may be expected from the proposed duties is subjoined.

It will occur to the House, that the credit allowed for the duties will require an anticipation of their product by a temporary loan, for which provision in the law will be requisite.

All which is humbly submitted.

ALEXANDER HAMILTON,
Secretary of the Treasury.

HAMILTON TO SHORT ¹

(Cabinet Paper.)

TREASURY DEPARTMENT, April 16, 1792.

SIR:

The fluctuation of the price of the stocks in the United States is a circumstance that cannot have failed to attract your attention, nor to excite a temporary feeling in the minds of foreigners. Though I doubt not it will be well explained by the agents of those citizens of other countries who have vested their moneys in our funds, I think it necessary that some ideas should be communicated to you, on which you can found a true opinion, either for your own satisfaction or that of persons interested in our national welfare, with whom you may have occasion to confer.

The moderate size of the domestic debt of the United States appears to have created the most intemperate ideas of speculation in the minds of a very few persons, whose natural ardor had been increased by great success in some of the early stages of the melioration of the market value of the stock. To combinations of private capitals thus acquired or increased, sums of specie, obtained as well at the most extravagant rates of premium as

¹ William Short, of Virginia. Born, 1759; died at Philadelphia, 1849. He was Jefferson's Secretary of Legation at Paris, 1784. In 1789 he was appointed by Washington Chargé d'Affaires at Paris, and in 1792 Minister to Holland, whence he was transferred to Spain in 1794, acting first in the capacity of commissioner and afterwards of minister. He was an able and successful diplomatist, and had charge of all the business of the foreign loans, and of funding and paying the foreign debt.

at common interest, were added, and to these were joined purchases of stock on credits, for various terms, so as to create a delusive confidence that the concentration of so much stock in a few hands would secure a very high market rate. This expectation was increased by comparing the market values of the several species of our funds, with those of the same species of stock in Great Britain, the United Netherlands, and other parts of Europe, without due allowance for the deductions which should have been made on account of the great difference in the value of money, and the objections arising from our distance from those European money-holders whose capitals they expected to attract, and other relative circumstances. At the time when many heavy engagements thus formed were becoming due, some contentions among the dealers in, and proprietors of, the debt, took place, and counter combinations were formed to render the crisis of payment and speculation as inconvenient and disadvantageous as possible. By these means those eventual contracts, it was probably hoped, could be more cheaply complied with; and, moreover, that a reduced market would afford further opportunities of beneficial speculation. The extreme indiscretion of the first-mentioned speculations, and the distress which, it was manifest, they must produce, excited, perhaps, and animated the movements of the other party, and brought on a scene of private distress for money, both artificial and real, which probably has not been equalled in this country. It happened in the winter season,

when the influx of cash articles of trade, as returns from abroad, is nearly suspended, and when quantities of specie were sent from the seaports to the interior country, for the purchase of produce to supply the demand for the spring exportation.

The banks, who can always perceive the approach of these things, were influenced to limit their operations, and particularly the Bank of the United States, which was then preparing for the opening of its branches, or offices of discount and deposit, in Boston, New York, Baltimore, and Charleston.

The United States, you would presume, could not be insensible of so fit a moment to make purchases of the public stock, and the Treasurer was accordingly authorized to buy; but, though the appearances of private distress for money were so great, he could not obtain for several days the sum of fifty thousand dollars, at the highest rates at which the public purchases had before been made. The holders who were free from engagements were averse to selling; the principal persons, who were under engagements they could not comply with, were obliged or disposed to place their effects in the hands of their creditors, who did not choose to add to their own disappointments of great profits actual losses by unseasonable sales of the bankrupts' property. The stock in the market, therefore, was really made scarce. A quarter's interest has just been paid. Some of the cautious moneyed people have begun to purchase. The specie is returning from the country, and the heaviest private engagements having now fallen due, the declension of stock may be considered

as arrested. There is little doubt that the difficulty for money among the dealers in the debt will be at no time so great as it has been, after the present week, and that changes of a favorable complexion are to be confidently expected; at first moderate, perhaps, afterwards such as will carry the funds up to their due value.

Should you be of opinion that the state of things in France will render some intimation of these events useful there, you will be good enough to communicate them to Mr. Morris, our minister at that court.

HAMILTON TO WASHINGTON ¹

(Cabinet Paper.)

PHILADELPHIA, August 18, 1792.

SIR:

I am happy to be able, at length, to send you answers to the objections which were communicated in your letter of the 29th of July.

They have unavoidably been drawn in haste, too much so, to do perfect justice to the subject, and have been copied just as they flowed from my heart and pen, without revision or correction. You will observe that here and there some severity appears. I have not fortitude enough always to hear with calmness calumnies which necessarily include

¹ This important letter is in reply to one from Washington, dated July 29, 1792, at Mount Vernon, giving the opinions he had heard expressed in Virginia as to the new government, and also certain objections to the financial policy offered by Col. George Mason at the instigation, probably, of Jefferson. It is printed here, because it is in effect a defence of the funding system.

me, as a principal agent in the measures censured, of the falsehood of which I have the most unqualified consciousness. I trust I shall always be able to bear, as I ought, imputations of errors of judgment; but I acknowledge that I cannot be entirely patient under charges which impeach the integrity of my public motives or conduct. I feel that I merit them *in no degree*; and expressions of indignation sometimes escape me, in spite of every effort to suppress them. I rely on your goodness for the proper allowances.

With high respect and the most affectionate attachment, I have the honor to be, sir, etc.

OBJECTIONS ² AND ANSWERS RESPECTING THE ADMINISTRATION OF THE GOVERNMENT

OBJECTION 1.—The public debt is greater than we can possibly pay before other causes of adding to it will occur; and this has been artificially created by adding together the *whole amount* of the debtor and creditor sides of the accounts.

ANSWER.—The public debt was produced by the late war. It is not the fault of the present government that it exists, unless it can be proved that public morality and policy do not require of a government an honest provision for its debts. Whether it is greater than can be paid before new causes of adding to it will occur, is a problem incapable of being

² These objections are all repeated from Washington's letter, which it is, therefore, needless to reprint here.

solved, but by experience; and this would be the case if it were not one fourth as much as it is. If the policy of the country be prudent, cautious, and neutral towards foreign nations, there is a rational probability that war may be avoided long enough to wipe off the debt. The Dutch, in a situation not near so favorable for it as that of the United States, have enjoyed intervals of peace longer than with proper exertions would suffice for the purpose. The debt of the United States, compared with its present and growing abilities, is really a very light one. It is little more than 15,000,000 of pounds sterling—about the annual expenditure of Great Britain.

But whether the public debt shall be extinguished or not, within a moderate period, depends on the temper of the people. If they are rendered dissatisfied by misrepresentations of the measures of the government, the government will be deprived of an efficient command of the resources of the community toward extinguishing the debt. And thus those who clamor are likely to be the principal causes of protracting the existence of the debt.

As to its having been artificially increased, this is denied; perhaps, indeed, the true reproach of the system which has been adopted is, that it has artificially diminished the debt, as will be explained by and by.

The assertion that the debt has been increased, by adding together the whole amount of the debtor and creditor sides of the account, not being easy to be understood, is not easy to be answered; but an answer shall be attempted.

The thirteen States, in their *joint* capacity, owed a *certain* sum. The same States, in their *separate* capacities, owed *another* sum. These two sums constitute the *aggregate* of the *public debt*. The PUBLIC, in a political sense, compounded of the governments of the Union and of the several States, was the DEBTOR. The individuals who hold the various evidences of debt were the CREDITORS. It would be nonsense to say, that the combining of *the two parts* of the public debt is adding together the debtor and creditor sides of the account. So great an absurdity cannot be supposed to be intended by the objection. Another meaning must therefore be sought for.

It may possibly exist in the following misconception. The States, individually, when they liquidated the accounts of individuals for services and supplies toward the common defence, during the late war, and gave certificates for the sums due, would naturally charge them to the United States as contributions to the common cause. The United States, in assuming to pay those certificates, charge themselves with them. And it may be supposed that here is a double charge for the same thing.

But as the amount of the sum assumed for each State is by the system adopted to be charged to such State, it of course goes in extinguishment of so much of the first charge as is equal to the sum assumed, and leaves the United States chargeable only once, as ought to be the case.

Or perhaps the meaning of the objection may be found in the following mode of reasoning. Some States, from having disproportionately contributed

during the war, would probably on a settlement of accounts be found debtors, independently of the assumption. The assuming of the debts of such States increases the balances against them; and as these balances will ultimately be remitted, from the impracticability of enforcing their payment, the sum assumed will be an extra charge upon the United States, increasing the mass of the debt.

This objection takes it for granted, that the balances of the debtor States will not be exacted; which, by the way, is no part of the system, and if it should eventually not prove true, the foundation of the reasoning would fail. For it is evident, if the balances are to be collected, (unless there be some undiscovered error in the principle by which the accounts are to be adjusted,) that one side of the account will counterpoise the other, and every thing as to the quantum of debt will remain *in statu quo*.

But it shall be taken for granted, that the balances will be remitted; and still the consequence alleged does not result. The reverse of it may even take place. In reasoning upon this point, it must be remembered that impracticability would be alike an obstacle to the collection of balances, without, as with the assumption.

This being the case, whether the balances to be remitted will be increased or diminished must depend on the relative proportions of outstanding debts. If a former *debtor* State owes to individuals a smaller sum, in proportion to its contributive faculty, than a former *creditor* State, the assumption of the debts of both to be provided for out of a *common*

fund raised upon them proportionally, must necessarily, on the idea of a remission of balances, tend to restore equality between them, and lessen the balance of the debtor State to be remitted.

How the thing may work upon the whole cannot be pronounced without a knowledge of the situation of the account of each State; but all circumstances that are known render it probable that the ultimate effect will be favorable to justice between the States, and that there will be inconsiderable balances either on one side or on the other.

It was observed, that perhaps the true reproach of the system which has been adopted is, that it has artificially decreased the debt. This is explained thus:

In the case of the debt of the United States, interest upon two thirds of the principal only, at six per cent., is immediately paid; interest upon the remaining third was deferred for ten years, and only three per cent. has been allowed upon the arrears of interest, making one third of the whole debt.

In the case of the separate debts of the States, interest upon four ninths only of the entire sum is immediately paid; interest upon two ninths was deferred for ten years, and only three per cent. allowed on three ninths.

The market rate of interest, at the time of adopting the funding system, was six per cent. Computing, according to this rate of interest, the then present value of one hundred dollars of debt, upon an average, principal and interest, was about seventy-three dollars.

At the present *actual* value, in the market, of one hundred dollars, as the several kinds of stock are sold, is no more than eighty-three dollars and sixty-one cents. This computation is not made on equal sums of the several kinds of stock, according to which the average value of one hundred dollars would be only seventy-eight dollars and seventy-five cents; but it is made on the proportions which constitute the mass of the debt.

At seventy-three to one hundred, the diminution on 60,000,000 is 16,200,000 dollars; at eighty-three dollars and sixty-one cents to one hundred, it is 9,834,000 dollars.

But as the United States, having a right to redeem in certain proportions, need never give more than par for the six per cents., the diminution to them, as purchasers at the present market prices, is 12,168,000 dollars.

If it be said that the United States are engaged to pay the whole sum, at the nominal value, the answer is, that they are always at liberty, if they have the means, to purchase at the market prices; and in all those purchases they gain the difference between the nominal sums and the lesser market rates.

If the whole debt had been provided for at six per cent., the market rate of interest when the funding system passed, the market value throughout would undoubtedly have been one hundred for one hundred. The debt may then rather be said to have been artificially decreased by the nature of the provision.

The conclusion from the whole is that, assuming

it as a principle that the public debts of the different descriptions were honestly to be provided for and paid, it is the reverse of true that there has been an artificial increase of them. To argue on a different principle, is to presuppose dishonesty, and make it an objection to doing right.

OBJECTION 2.—This accumulation of debt has taken for ever out of our power those easy resources of revenue which, applied to the ordinary necessities and exigencies of government, would have animated them habitually, and covered us from habitual murmurings against taxes and tax-gatherers;—reserving extraordinary calls for extraordinary occasions, would animate the people to meet them.

ANSWER.—There having been no accumulation of debt, if what is here pretended to have been the consequence were true, it would only be to be regretted as the unavoidable consequence of an unfortunate state of things. But the supposed consequence does by *no means* exist. The only sources of taxation which have been touched are imported articles, and the single internal object of distilled spirits; lands, houses, the great mass of personal as well as the whole of real property, remain essentially free.

In short, the chief sources of taxation are free for extraordinary conjunctures, and it is one of the distinguishing merits of the system which has been adopted, that it has rendered this far more the case than it was before. It is only necessary to look into the different States to be convinced of it. In most of them, real estate is wholly exempted. In some, very small burthens rest upon

it for the purpose of the internal governments. In all, the burthens of the people have been lightened. It is a mockery of truth to represent the United States as a community burthened and exhausted by taxes.

OBJECTION 3.—That the calls for money have been no greater than we must generally expect, for the same or equivalent exigencies; yet we are already obliged to strain the *impost* till it produces clamor, and will produce evasion, and war on our citizens to collect it, and even to resort to an *excise* law, of odious character with the people, partial in its operation, unproductive unless enforced by arbitrary and vexatious means, and committing the authority of the government, in parts where resistance is most probable and coercion least practicable.

ANSWER.—This is mere painting and exaggeration. With the exception of a very few articles, the duties on imports are still moderate—lower than in any other country of whose regulations we have knowledge, except, perhaps, Holland, where, having few productions or commodities of their own, their export trade depends on the exportation of foreign articles.

It is true that merchants have complained; but so they did of the first impost law, for a time; and so men always will do at an augmentation of taxes which touch the business they carry on, especially in a country where no, or scarcely any, *such* taxes before existed. The collection, it is not doubted, will be essentially secure. Evasions have existed, in a degree, and will continue to exist. Perhaps they

may be somewhat increased, to what extent can only be determined by experience; but there are no symptoms to induce an opinion that they will materially *increase*. As to the idea of a war upon the citizens to collect the impost duties, it can only be regarded as a figure of rhetoric.

The excise law, no doubt, is a good topic of declamation; but can it be doubted that it is an excellent and a very fit means of revenue?

As to the partiality of its operation, it is no more so than any other tax on a consumable commodity, adjusting itself upon exactly the same principles. The consumer, in the main, pays the tax; and if some parts of the United States consume more domestic spirits, others consume more foreign, and both are taxed. There is, perhaps, upon the whole, no article of more *general* and *equal* consumption than distilled spirits.

As to its *unproductiveness*, unless enforced by *arbitrary* and *vexatious* means, facts testify the contrary. Already, under all the obstacles arising from its novelty and the prejudices against it in some States, it has been considerably productive; and it is not enforced by any arbitrary or vexatious means; at least, the precautions in the existing laws for the collection of the tax will not appear in that light but to men who regard all taxes, and all the means of enforcing them, as arbitrary and vexatious.

Here, however, there is abundant room for fancy to operate. The standard is in the mind, and different minds will have different standards.

The observation relating to the commitment of the

authority of the government, in parts where resistance is most probable and coercion least practicable, has more weight than any other part of this objection. It must be confessed that a hazard of this nature has been run; but if there were motives sufficiently cogent for it, it was wisely run. It does not follow that a measure is bad because it is attended with a degree of danger.

The general inducements to a provision for the public debt are:

1. To preserve the public faith and integrity, by fulfilling, as far as was practicable, the public engagements.

2. To manifest a due respect for property, by satisfying the public obligations in the hands of the public *creditors*, and which were as much their property as their houses or their lands, their hats or their coats.

3. To revive and establish public credit, the palladium of public safety.

4. To preserve the government itself, by showing it worthy of the confidence which was placed in it; to procure to the community the blessings which in innumerable ways attend confidence in the government, and to avoid the evils which in as many ways attend the want of confidence in it.

(† The particular inducements to an assumption of the State debts were:

1. To consolidate the finances of the country, and give an assurance of permanent order in them; avoiding the collision of thirteen different and independent systems of finance under concurrent and

coequal authorities, and the scramblings for revenue which would have been incident to so many different systems.

2. To secure to the government of the Union, by avoiding those entanglements, an effectual command of the resources of the Union for present and future exigencies.

3. To *equalize the condition* of the citizens of the several States in the important article of taxation; rescuing a part of them from being oppressed with burdens beyond their strength, on account of extraordinary exertions in the war, and through the want of certain adventitious resources which it was the good fortune of others to possess.

A mind naturally attached to order and system, and capable of appreciating their immense value, unless misled by particular feelings, is struck at once with the prodigious advantages which, in the course of time, must attend such a simplification of the financial affairs of the country as results from placing all the parts of the public debt upon one footing, under one direction, regulated by one provision. The want of this sound policy has been a continual source of disorder and embarrassment in the affairs of the United Netherlands.

The true justice of the case of the public debt consists in that equalization of the condition of the citizens of all the States which must arise from a consolidation of the debt and common contributions towards its extinguishment. Little inequalities as to the past can bear no comparison with the more lasting inequalities which, without the assumption,

would have characterized the future condition of the people of the United States, leaving upon those who had done most, or suffered most, a great additional weight of burden.

If the foregoing inducements to a provision for the public debt (including an assumption of the State debts) were sufficiently cogent, then the justification of the excise laws lies within a narrow compass. Some further source of revenue, besides the duties on imports, was indispensable, and none equally productive would have been so little exceptionable to the mass of the people.

Other reasons co-operated in the minds of some able men to render an excise at an early period desirable. They thought it well to lay hold of so valuable a resource of revenue before it was generally preoccupied by the State governments. They supposed it not amiss that the authority of the national government should be visible in some branch of internal revenue, lest a total non-exercise of it should beget an impression that it was never to be exercised, and next, that it ought not to be exercised. It was supposed, too, that a thing of the kind could not be introduced with a greater prospect of easy success than at a period when the government enjoyed the advantage of first impressions, when State factions to resist its authority were not yet matured, when so much aid was to be derived from the popularity and firmness of the actual Chief Magistrate.

Facts hitherto do not indicate the measure to have been rash or ill advised. The law is in operation with

perfect acquiescence in all the States north of New York, though they contribute most largely. In New York and New Jersey it is in full operation, with some very partial complainings fast wearing away. In the greater part of Pennsylvania it is in operation, and with increasing good humor towards it. The four western counties continue exceptions. In Delaware it has had some struggle, which, by the last accounts, was surmounted. In Maryland and Virginia it is in operation, and without material conflict. In South Carolina it is now in pretty full operation, though in the interior parts it has had some serious opposition to overcome. In Georgia no material difficulty has been experienced. North Carolina, Kentucky, and the four western counties of Pennsylvania, present the only remaining impediments of any consequence to the full execution of the law. The latest advices from North Carolina and Kentucky were more favorable than the former.

It may be added as a well-established fact, that the effect of the law has been to encourage new enterprises in most of the States in the business of domestic distillation. A proof that it is perceived to operate favorably to the manufacture, and that the measure cannot long remain unpopular anywhere.

OBJECTION 4.—Propositions have been made in Congress, and projects are on foot still to increase the mass of the debt.

ANSWER.—Propositions have been made, and no doubt will be renewed by the States interested, to complete the assumption of the State debts. This would add in the first instance to the mass of the

debt of the United States between three and four millions of dollars, but it would not increase the mass of the *public debt* at all. It would only transfer from particular States to the Union debts which already exist, and which, if the States indebted are honest, must be provided for. It happens that Massachusetts and South Carolina would be chiefly benefited. And there is a moral certainty that Massachusetts will have a balance in her favor more than equal to her remaining debt, and a probability that South Carolina will have a balance sufficient to cover hers. So that there is not likely to be an eventual increase even of the debt of the *United States* by the further assumption. The immense exertions of Massachusetts during the late war, and particularly in the late periods of it when too many of the States failed in their federal duty, are known to every well-informed man. It would not be too strong to say, that they were in a great degree the pivot of the Revolution. The exertions, sufferings, sacrifices, and losses of South Carolina need not be insisted upon.

The other States have comparatively none or inconsiderable debts. Can that policy be condemned which aims at putting the burdened States upon an equal footing with the rest? Can that policy be very liberal which resists so equitable an arrangement? It has been said that if they had exerted themselves since the peace, their situation would have been different. But Massachusetts threw her citizens into rebellion by heavier taxes than were paid in any other State, and South Carolina has done as much since the peace as could have been ex-

pected, considering the exhausted state in which the war left her.

The only proposition during the last session, or at any antecedent one, which would truly have swelled the debt artificially, was one which Mr. Madison made in the first session, and which was renewed in the last, and generally voted for by those who opposed the system that has prevailed. The object of this proposition was, that all the parts of the State debts which have been *paid*, or otherwise absorbed by them, should be assumed for the benefit of the States and funded by the United States. This measure, if it had succeeded, would truly have produced an immense artificial increase of the debt, but it has twice failed, and there is no probability that it will ever succeed.

OBJECTION 5.—They say that by borrowing at two thirds of the interest we might have paid off the principal in two thirds of the time, but that from this we are precluded by its being made irredeemable but in small portions and long terms.

ANSWER.—*First*. All the foreign loans which were made by the United States prior to the present government, taking into the calculation charges and premiums, cost them more than six per cent. Since the establishment of the present government, they borrowed first at about five and a quarter, including charges, and since, at about four and a quarter, including charges. And it is questionable, in the present state of Europe, whether they can obtain any further loans at so low a rate.

The system which is reprobated is the very cause

that we have been able to borrow on so good terms. If one that would have inspired less confidence, certainly if the substitutes which have been proposed, from a certain quarter, had obtained, we could not have procured loans even at six per cent. The Dutch were largely adventurers in our domestic debt before the present government. They did not embark far till they had made inquiries of influential public characters, as to the light in which the debt was and would be considered in the hands of aliens—and had received assurance that assignees would be regarded in the same light as original holders. What would have been the state of our credit with them, if they had been disappointed, or indeed if our conduct had been in any respect inconsistent with the notions entertained in Europe concerning the maxims of public credit?

The inference is, that our being able to borrow on low terms is a consequence of the system which is the object of censure, and that the thing itself, which is made the basis of another system, would not have existed under it.

Secondly. It will not be pretended that we could have borrowed at the proposed low rate of interest in the United States; and all our exertions to borrow in Europe, which have been unremitting, as occasions presented, have not hitherto produced above ——— dollars, not even a sufficient sum to change the form of our foreign debt.

Thirdly. If it were possible to borrow the whole sum abroad within a short period, to pay off our debt, it is not easy to imagine a more pernicious

operation than this would have been. It would first have transferred to foreigners, by a violent expedient, the whole amount of our debt; and creating a money plethora in the country, a momentary scene of extravagance would have followed, and the excess would quickly have flowed back;—the evils of which situation need not be enlarged upon.

If it be said that the operation might have been gradual, then the end proposed would not have been attained.

Lastly. The plan which has been adopted secures, in the first instance, the *identical advantage* which in the other plan would have been *eventual* and *contingent*. It puts one third of the whole debt at an interest of three per cent. only, and by deferring the payment of interest on a third of the remainder, effectually reduces the interest on that part. It is evident that a *suspension* of interest is in fact a *reduction* of interest. The money which would go towards paying interest in the interval of suspension is an accumulating fund, to be applied towards payment of it when it becomes due, reducing the provision then to be made.

In reality, on the principles of the funding system, the United States reduced the interest on their whole debt, upon an average, to about four and a half per cent., nearly the lowest rate they have any chance to borrow at, and lower than they could possibly have borrowed at in an attempt to reduce the interest on the whole capital by borrowing and paying, probably by one per cent. A demand for large loans, by forcing the market, would unavoidably

have raised their price upon the borrower. The above average of four and a half per cent. is found by calculation, computing the then present value of the deferred stock at the time of passing the funding acts, and of course three per cent. on the three per cent. stock.

The funding system, then, secured in the very outset the *precise advantage* which it is alleged would have accrued from having the whole debt redeemable at pleasure. But this is not all. It did more. It left the government still in a condition to enjoy upon five ninths of the entire debt the advantage of extinguishing it, by loans at a low rate of interest, if they are obtainable. The three per cents, which are one third of the whole, may always be purchased in the market below par, till the market rate of interest falls to three per cent. The deferred will be purchasable below par, till near the period of the actual payment of interest. And this further advantage will result: in all those purchases the public will enjoy, not only the advantage of a reduction of interest on the sums borrowed, but the additional advantage of purchasing the debt under par, that is, for less than twenty shillings in the pound.

If it be said that the like advantage might have been enjoyed under another system, the assertion would be without foundation. Unless some equivalent had been given for the reduction of interest in the irredeemable quality annexed to the debt, nothing was left, consistently with the principles of public credit, but to provide for the whole debt at

six per cent. This evidently would have kept the whole at par, and no advantage could have been derived by purchases under the nominal value. The reduction of interest, by borrowing at a lower rate, is all that would have been practicable, and this advantage has been secured by the funding system in the very outset, and without any second process.

If no provision for the interest had been made, not only public credit would have been sacrificed, but by means of it the borrowing at a low rate of interest, or at any rate, would have been impracticable.

There is no reproach which has been thrown upon the funding system so unmerited as that which charges it with being a bad bargain for the public, or with a tendency to prolong the extinguishment of the debts. The bargain has, if any thing, been too good on the side of the public; and it is impossible for the debt to be in a more convenient form than it is for a rapid extinguishment.

Some gentlemen seem to forget that the faculties of every country are limited. They talk as if the government could extend its revenue *ad libitum* to pay off the debt. Whereas every rational calculation of the abilities of the country will prove, that the power of redemption which has been reserved over the debt is quite equal to those abilities, and that a greater power would be useless. If happily the abilities of the country should exceed this estimate, there is nothing to hinder the surplus being employed in purchases. As long as the three per cents and deferred exist, those purchases will be

under par. If for the stock bearing an immediate interest of six per cent., more than par is given, the government can afford it from the saving made in the first instance.

Upon the whole, then, it is the merit of the funding system to have conciliated these three important points—the restoration of public credit, a reduction of the rate of interest, and an organization of the debt convenient for speedy extinguishment.

OBJECTION 6.—That this irredeemable quality was given to the debt for the *avowed purpose* of inviting its transfer to foreign countries.

ANSWER.—This assertion is a palpable misrepresentation. The *avowed purpose* of that quality of the debt, as explained in the report of the Secretary of the Treasury, and in the arguments in Congress, was to give an *equivalent* for the reduction of interest—that is, for deferring the payment of interest on one third of the principal for three years, and for allowing only three per cent. on the arrears of interest.

It was indeed argued, in confirmation of the reality of the equivalent, that foreigners would be willing to give more where a high rate of interest was *fixed*, than where it was liable to fluctuate with the market. And this has been verified by the fact—for the six per cents could not have risen for a moment above par, if the rate could have been lowered by redeeming the debt at pleasure. But the inviting of the transfer to foreigners was never assigned as a motive to the arrangement.

And what is more, that transfer will be probably

slower with the portion of irredeemability which is attached to the debt than without it, because a larger capital would be requisite to purchase one hundred dollars in the former than in the latter case. And the capital of foreigners is limited as well as our own.

It appears to be taken for granted, that if the debt had not been funded in its present shape, foreigners would not have purchased it as they now do; than which nothing can be more ill-founded or more contrary to experience. Under the old Confederation, when there was no provision at all, foreigners had purchased five or six millions of the debt. If any provision had been made, capable of producing confidence, their purchases would have gone on just as they now do; and the only material difference would have been that what they got from us then would have cost them less than what they now get from us does cost them. Whether it is to the disadvantage of the country that they pay more, is submitted.

Even a provision which should not have inspired full confidence would not have prevented foreign purchases. The commodity would have been cheap in proportion to the risks to be run. And full-handed Dutchmen would not have scrupled to amass large sums for trifling considerations, in the hope that time and experience would introduce juster notions into the public councils.

Our debt would still have gone from us, and with it our reputation and credit.

OBJECTION 7.—They predict that this transfer of the principal, when completed, will occasion an

exportation of three millions of dollars annually for the interest; a drain of coin, of which, as there has been no example, no calculation can be made of its consequences.

ANSWER.—The same gloomy forebodings were heard in England in the early periods of its funding system. But they have never been realized. The money invested by foreigners in the purchase of its debt, being employed in its commerce, agriculture, and manufactures, increased the capital and wealth of the nation more than in proportion to the annual drain for the payment of interest, and created the ability to bear it.

The objection seems to forget that the debt is not transferred for nothing; that the capital paid for the debt is always an equivalent for the interest to be paid to the purchaser. If that capital is well employed in a young country like this, it must be considerably increased, so as to yield a greater revenue than the interest of the money. The country therefore will be a gainer by it, and will be able to pay the interest without inconvenience.

But the objectors suppose that all the money which comes in goes out again, in an increased consumption of foreign luxuries. This, however, is taking for granted what never happened in any industrious country, and what appearances among us do not warrant. The expense of living, generally speaking, is not sensibly increased. Large investments are every day making in ship-building, house-building, manufactures, and other improvements, public and private.

The transfer, too, of the whole debt, is a very improbable supposition; a large part of it will continue to be owned by our own citizens. And the interest of that part which is owned by foreigners will not be annually exported, as is supposed. A considerable part will be invested in new speculations—in lands, canals, roads, manufactures, commerce. Facts warrant this supposition. The agents of the Dutch have actually made large investments in a variety of such speculations.

A young country like this is peculiarly attractive. New objects will be continually opening, and the money of foreigners will be made instrumental to their advancement.

OBJECTION 8.—That the banishment of our coin will be completed by the creation of ten millions of paper money, in the form of bank bills, now issuing into circulation.

ANSWER.—This is a mere hypothesis, in which theorists differ. There are no decisive facts on which to rest the question.

The supposed tendency of bank paper to banish specie is from its capacity of serving as a substitute for it in circulation. But as the quantity circulated is proportioned to the demand for it in circulation, the presumption is that a greater quantity of industry is put in motion by it, so as to call for a proportionally greater quantity of *circulating medium* and prevent the banishment of the specie. But however this may be, it is agreed among sound theorists, that banks more than compensate for the loss of the specie in other ways. SMITH, who was witness to

their effects in Scotland, where too a very adverse fortune attended some of them, bears his testimony to their beneficial effects in these strong terms (*Wealth of Nations*, Vol. I., Book II., Chap. 11, pages 441 to 444).

OBJECTION 9.—They think the ten or twelve per cent. annual profit paid to the lenders of this paper medium are taken out of the pockets of the people, who would have had without interest the coin it is banishing.

ANSWER.—1. The profits of the bank have not hitherto exceeded the rate of eight per cent. per annum, and perhaps never may. It is questionable whether they can legally make more than ten per cent.

2. These profits can in no just sense be said to be taken out of the pockets of the people. They are compounded of two things: 1st, the interest paid by the government on that part of the public debt which is incorporated in the stock of the bank; 2d, the interest paid by *those individuals who borrow money of the bank on the sums they borrow.*

As to the first, it is no *new* grant to the bank. It is the old interest on a part of the old debt of this country, substituted by the proprietors of that debt towards constituting the stock of the bank. It would have been equally payable if the bank had never existed. It is, therefore, nothing new taken out of the pockets of the people.

As to the second, it may with equal propriety be said, when one individual borrows money of another, that the interest which the borrower pays to the

lender is taken out of the *pockets of the people*. The case here is not only parallel, but the same. It is the case of one or more individuals borrowing money of a company of individuals associated to lend. None but the actual borrowers pay in either case; the rest of the community have nothing to do with it.

If a man receives a bank bill for the ox or the bushel of wheat which he sells, he pays no more interest upon it than upon the same sum in gold or silver—that is, he pays none at all.

So that, whether the paper banishes specie or not, it is the same thing to every individual through whose hands it circulates, as to the point of interest. Specie no more than bank paper can be borrowed without paying interest for it; and when either is not borrowed no interest is paid. As far as the government is a sharer in the profits of the bank, which is in the proportion of one fifth, the contrary of what is supposed happens: *money is put into the pockets of the people*.

All this is so plain and so palpable, that the assertion which is made betrays extreme ignorance or extreme disingenuousness. It is destitute even of color.

OBJECTION 10.—That all the capital employed in paper speculations is barren and useless, producing, like that on a gaming-table, no accession to itself, and is withdrawn from commerce and agriculture, where it would have produced addition to the common mass.

ANSWER.—This is a copious subject, which has

been fully discussed in the report of the Secretary of the Treasury, on the subject of manufactures.¹ It is true that the capital—that is, the specie which is employed in paper speculation,—while so employed, is barren and useless, but the paper itself constitutes a new capital, which, being salable and transferable at any moment, enables the proprietor to undertake any piece of business as well as an equal sum in coin; and as the amount of the debt circulated is much greater than the amount of specie which circulates it, the new capital put in motion by it considerably exceeds the old one, which is *suspended*, and there is more capital to carry on the productive labor of the society. Every thing that has value is capital—an acre of ground, a horse, or a cow, or a public or private obligation, which may, with different degrees of convenience, be applied to industrious enterprise. That which, like public stock, can at any instant be turned into money, is of equal utility with money as capital. Let it be examined, whether at those places where there is most debt afloat, and most money employed in its circulation, there is not at the same time a greater plenty of money for every other purpose. It will be found that there is.

But it is a fact quite immaterial to the government, as far as regards the propriety of its measures.

The debt existed; it was to be provided for. In whatever shape the provision was made, the object of speculation and the speculation would have existed. Nothing but abolishing the debt could have

¹ See Vol. IV.

obviated it. It is, therefore, the fault of the Revolution, not of the government, that paper speculation exists. An unsound or precarious provision would have increased this species of speculation in its most odious forms; the defects and casualties of the system would have been as much subjects of speculation as the debt itself.

The difference is, that under a bad system the public stock would have been too uncertain an article to be a substitute for money, and all the money employed in it would have been diverted from useful employment, without any thing to compensate for it. Under a good system, the stock becomes more than a substitute for the money employed in negotiating it.

OBJECTION II.—*Paper Speculation.* That it nourishes in our citizens vice and idleness, instead of industry and morality.

ANSWER.—This proposition, within certain limits, is true. Jobbing in the funds has some bad effects among those engaged in it. It fosters a spirit of gambling, and diverts a certain number of individuals from other pursuits. But if the proposition be true, that stock operates as capital, the effect upon the citizens at large is different. It promotes among them industry, by furnishing a larger field of employment. Though this effect of a funded debt has been called in question in England by some theorists, yet most theorists and all practical men allow its existence. And there is no doubt, as already intimated, that if we look into those scenes among ourselves where the largest portions of the debt are

accumulated, we shall perceive that a new spring has been given to industry in various branches.

But, be all this as it may, the observation made under the last head applies here. The debt was the creature of the Revolution. It was to be provided for. Being so, in whatever form, it must have become an object of speculation and jobbing.

OBJECTION 12.—The funding of the debt has furnished effectual means of corrupting such a portion of the Legislature as turns the balance between the honest voters whichever way it is directed.

ANSWER.—This is one of those assertions which can only be denied, and pronounced to be malignant and false. No facts exist to support it, and being a mere matter of fact, no argument can be brought to repel it.

The assertors beg the question. They assume to themselves, and to those who think with them, infallibility. Take their words for it, they are the only honest men in the community. But compare the tenor of men's lives, and at least as large a portion of virtuous and independent characters will be found among those whom they malign as among themselves.

A member of the majority of the Legislature would say to these defamers: "In your vocabulary, gentlemen, *Creditor* and *Enemy* appear to be synonymous terms; the *support of public credit*, and *corruption*, of similar import; an enlarged and liberal construction of the Constitution, for the public good and for the maintenance of the due energy of the national authority, of the same meaning with usurpation and

a conspiracy to overturn the republican government of the country; every man of a different opinion from your own, an ambitious despot or a corrupt knave. You bring every thing to the standard of your narrow and depraved ideas, and you condemn without mercy or even decency whatever does not accord with it. Every man who is either *too short* or *too long* for your political couch must be stretched or lopped to suit it. But your pretensions must be rejected, your insinuations despised. Your politics originate in immorality, in a disregard of the maxims of good faith and the rights of property, and if they could prevail must end in national disgrace and confusion. Your rules of construction for the authorities, vested in the government of the Union, would arrest all its essential movements, and bring it back in practice to the same state of imbecility which rendered the old Confederation contemptible. Your principles of liberty are principles of licentiousness incompatible with all government. You sacrifice every thing that is venerable and substantial in society to the vain reveries of a false and new-fangled philosophy. As to the motives by which I have been influenced, I leave my general conduct in private and public life to speak for them. Go and learn among my fellow-citizens whether I have not uniformly maintained the character of an honest man. As to the love of liberty and country, you have given no stronger proofs of being actuated by it than I have done;—cease, then, to arrogate to yourself and to your party all the patriotism and virtue of the country. Renounce, if you can, the

intolerant spirit by which you are governed, and begin to reform yourself, instead of reprobating others, by beginning to doubt of your own infallibility."

Such is the answer which would naturally be given by a member of the majority of the Legislature to such an objection. And it is the only one that could be given, until some evidence of the supposed corruption should be produced.

As far as I know there is not a member of the Legislature who can properly be called a stock-jobber or a paper-dealer. There are several of them who were proprietors of public debt in various ways; some for money lent and property furnished for the use of the public during the war; others for sums received in payment of debts, and it is supposable enough that some of them had been purchasers of the public debt, with intention to hold it as a valuable and convenient property, considering an honorable provision for it as a matter of course.

It is a strange perversion of ideas, and as novel as it is extraordinary, that men should be deemed corrupt and criminal for becoming proprietors in the funds of their country. Yet I believe the number of members of Congress is very small who have ever been considerable proprietors in the funds. As to improper speculations on measures depending before Congress, I believe never was any body of men freer from them.

There are, indeed, several members of Congress who have become proprietors in the Bank of the United States, and a few of them to a pretty large

amount, say fifty or sixty shares. But all operations of this kind were necessarily subsequent to the determination upon the measure; the subscriptions were of course subsequent, and purchases still more so. Can there be any thing really blamable in this? Can it be culpable to invest property in an institution which has been established for the most important national purposes? Can that property be supposed to corrupt the holder? It would indeed tend to render him friendly to the preservation of the bank; but in this, there would be no collision between duty and interest, and it would give him no improper bias on other questions.

To uphold public credit, and to be friendly to the bank, must be presupposed to be *corrupt* things, before the being a proprietor in the funds, or of bank stock, can be supposed to have a *corrupting influence*. The being a proprietor, in either case, is a very different thing from being, in a proper sense of the term, a stock-jobber.

On this point of the corruption of the Legislature, one more observation of great weight remains. Those who oppose a funded debt, and mean any provision for it, contemplate an annual one.

Now it is impossible to conceive a more fruitful source of legislative corruption than this. All the members of it who should incline to speculate would have an annual opportunity of speculating upon their influence in the Legislature to promote, or retard, or put off a provision. Every session the question whether the annual provision should be continued, would be an occasion of pernicious caballing

and corrupt bargaining. In this very view, when the subject was in deliberation, it was impossible not to wish it decided upon once for all, and out of the way.

OBJECTION 13.—The corrupt squadron deciding the voice of the Legislature have manifested their disposition to get rid of the limitations imposed by the Constitution on the general Legislature; limitations, on the faith of which the States acceded to that instrument.

ANSWER.—Here again the objectors beg the question. They take it for granted that their constructions of the Constitution are right, and that the opposite ones are wrong; and with great good nature and candor ascribe the effect of a difference of opinion to a disposition to get rid of the limitations on the government.

Those who have advocated the constructions which have obtained, have met their opponents on the ground of fair argument, and they think have refuted them. How shall it be determined which side is right?

There are some things which the general government has clearly a right to do. There are others which it has clearly no right to meddle with; and there is a good deal of middle ground, about which honest and well-disposed men may differ. The most that can be said is, that some of this middle ground may have been occupied by the national Legislature, and this surely is no evidence of a disposition to get rid of the limitations in the Constitution, nor can it be viewed in that light by men of candor.

The truth is, one description of men is disposed to do the essential business of the nation, by a liberal construction of the powers of the government; another, from disaffection, would fritter away those powers; a third, from an overweening jealousy, would do the same thing; a fourth, from party and personal opposition, are torturing the Constitution into objections to every thing they do not like.

The bank is one of the measures which is deemed by some the greatest stretch of power, and yet its constitutionality has been established in the most satisfactory manner.

And the most incorrigible theorist among its opponents would, in one month's experience, as head of the department of the Treasury, be compelled to acknowledge that it is an absolutely indispensable engine in the management of the finances, and would quickly become a convert to its perfect constitutionality.

OBJECTION 14.—The ultimate object of all this is to prepare the way for a change from the present republican form of government to that of a monarchy, of which the British constitution is to be the model.

ANSWER.—To this there is no other answer than a flat denial, except this: that the project, from its absurdity, refutes itself.

The idea of introducing a monarchy or aristocracy into this country, by employing the influence and force of a government continually changing hands, toward it, is one of those visionary things that none but madmen could meditate, and that no wise man will believe.

If it could be done at all, which is utterly incredible, it would require a long series of time, certainly beyond the life of any individual, to effect it. Who, then, would enter into such a plot? for what purpose of interest or ambition?

To hope that the people may be cajoled into giving their sanctions to such institutions is still more chimerical. A people so enlightened and so diversified as the people of this country can surely never be brought to it, but from convulsions and disorders, in consequence of the arts of popular demagogues.

The truth unquestionably is, that the only path to a subversion of the republican system of the country is by flattering the prejudices of the people, and exciting their jealousies and apprehensions, to throw affairs into confusion, and bring on civil commotion. Tired at length of anarchy or want of government, they may take shelter in the arms of monarchy for repose and security.

Those, then, who resist a confirmation of public order are the true artificers of monarchy. Not that this is the intention of the generality of them. Yet it would not be difficult to lay the finger upon some of their party who may justly be suspected. When a man, unprincipled in private life, desperate in his fortune, bold in his temper, possessed of considerable talents, having the advantage of military habits, despotic in his ordinary demeanor, known to have scoffed in private at the principles of liberty; when such a man is seen to mount the hobby-horse of popularity, to join in the cry of danger to liberty, to take every opportunity of embarrassing the general gov-

ernment and bringing it under suspicion, to flatter and fall in with all the nonsense of the zealots of the day, it may justly be suspected that his object is to throw things into confusion, that he may "ride the storm and direct the whirlwind."

It has aptly been observed, that *Cato* was the *Tory*, *Cæsar* the *Whig* of his day. The former frequently resisted, the latter always flattered, the follies of the people. Yet the former perished with the republic—the latter destroyed it.

No popular government was ever without its *Catilines* and its *Cæsars*—these are its true enemies.

As far as I am informed, the anxiety of those who are calumniated is to keep the government in the state in which it is, which they fear will be no easy task, from a natural tendency in the state of things to exalt the local on the ruins of the national government. Some of them appear to wish, in a constitutional way, a change in the judiciary department of the government, from an apprehension that an orderly and effectual administration of justice cannot be obtained without a more intimate connection between the State and National tribunals. But even this is not an object of any set of men as a party. There is a difference of opinion about it, on various grounds, among those who have generally acted together. As to any other change of consequence, I believe nobody dreams of it.

It is curious to observe the anticipations of the different parties. One side appears to believe that there is a serious plot to overturn the State governments, and substitute a monarchy to the present

republican system. The other side firmly believes that there is a serious plot to overturn the general government, and elevate the separate power of the States upon its ruins. Both sides may be equally wrong, and their mutual jealousies may be naturally causes of the appearances which mutually disturb them and sharpen them against each other.

OBJECTION 15.—This charge, that this change (*i. e.*, from a republic to a monarchy) was contemplated in the convention, they say is no secret, because its partisans have made none of it—to effect it then was impracticable; but they are still eager after their object, and are predisposing every thing for its ultimate attainment.

ANSWER.—This is a palpable misrepresentation. No man that I know of contemplated the introducing into this country a monarchy. A very small number (not more than three or four) manifested theoretical opinions favorable in the abstract to a constitution like that of Great Britain; but every one agreed that such a constitution, except as to the general distribution of departments and powers, was out of the question in reference to this country. The member who was most explicit on this point (a member from New York) declared in strong terms that the republican theory ought to be adhered to in this country as long as there was any chance of its success; that the idea of a perfect equality of political rights among the citizens, exclusive of all permanent or hereditary distinctions, was of a nature to engage the good wishes of every good man,

whatever might be his theoretic doubts; that it merited his best efforts to give success to it in practice; that hitherto, from an incompetent structure of the government, it had not had a fair trial, and that the endeavor ought then to be to secure to it a better chance of success by a government more capable of energy and order.

There is not a man at present in either branch of the Legislature who, that I recollect, had held language in the convention favorable to monarchy.

The basis, therefore, of this suggestion fails.

OBJECTION 16.—So many of them have got into the Legislature, that, aided by the corrupt squadron of paper dealers, who are at their devotion, they make a majority in both Houses.¹

ANSWER.—This has been answered above. Neither description of character is to be found in the Legislature. In the Senate there are nine or ten who were members of the convention; in the House of Representatives, not more than six or seven.² Of those who are in the last-mentioned House, none can be considered as influential but Mr. Madison and Mr. Gerry. Are they monarchy men?

As to the 17th, 18th, and 19th heads:

OBJECTION 17.—The republican party who wish to preserve the government in its present form are fewer, even when joined by the two, three, or half a dozen anti-federalists, who, though they dare not avow it, are still opposed to any general government; but, being less so to a republican than a

¹ This objection is peculiarly Jeffersonian.—[Ed.]

² This computation is from memory.

monarchical one, they naturally join those whom they think pursuing the lesser evil.

OBJECTION 18.—Of all the mischiefs objected to the system of measures before mentioned, none, they add, is so afflicting, and fatal to every honest hope, as the corruption of the Legislature; as it was the earliest of these measures, it became the instrument for producing the rest, and will be the instrument for producing in future a king, lords, and commons, or whatever else those who direct it may choose. Withdrawn such a distance from the eye of their constituents, and these so dispersed as to be inaccessible to public information, and particularly to that of the conduct of their own representatives, they will form the worst government upon earth, if the means of their corruption be not prevented.

OBJECTION 19.—The only hope of safety, they say, hangs now on the numerous representation which is to come forward the ensuing year; but should the majority of the new members be still in the same principles with the present—show so much dereliction to republican government, and such a disposition to encroach upon or explain away the limited powers of the Constitution, in order to change it,—it is not easy to conjecture what would be the result, nor what means would be resorted to for correction of the evil. True wisdom, they acknowledge, should direct temperate and peaceable measures, but add, the division of sentiment and interest happens, unfortunately, to be so geographical, that no mortal can say that what is most wise and temperate would prevail against what is more easy and obvi-

ous. They declare they can contemplate no evil more incalculable than the breaking of the Union into two or more parts; yet when they view the mass which opposed the original coalescence—when they consider that it lay chiefly in the Southern quarter—that the Legislature have availed themselves of no occasion of allaying it, but, on the contrary, whenever Northern and Southern prejudices have come into conflict, the latter have been sacrificed and the former soothed.¹

They are rather inferences from and comments upon what is before suggested, than specific objections. The answer to them must therefore be derived from what is said under other heads.

It is certainly much to be regretted that party discriminations are so far geographical as they have been, and that ideas of a severance of the Union are creeping in both North and South. In the South, it is supposed that more government than is expedient is desired by the North. In the North, it is believed that the prejudices of the South are incompatible with the necessary degree of government, and with the attainment of the essential ends of national union. In both quarters there are respectable men, who talk of separation as a thing dictated by the different geniuses and different prejudices of the parts. But happily their number is not considerable, and the prevailing sentiment of the people is in favor of their true interest, UNION. And it is to be hoped that the efforts of wise men will be able to

¹ These three objections are inserted here as they stand in Washington's letter of July 29th.

prevent a schism which would be injurious in different degrees to different portions of the Union, but would seriously wound the prosperity of all.

As to the sacrifice of Southern to Northern prejudices—if the conflict has been between *prejudices* and *prejudices*, it is certainly to be wished, for mutual gratification, that there had been mutual concession; but if the conflict has been between *great* and substantial national objects on the one hand, and theoretical prejudices on the other, it is difficult to desire that the former should in any instance have yielded.

OBJECTION 20.—The owners of the debt are in the Southern, and the holders of it in the Northern, division.

ANSWER.—If this were literally true, it would be no argument for or against any thing. It would be still politically and morally right for the debtors to pay their creditors.

But it is in *no sense true*. The *owners* of the debt are the people of *every* State, South, Middle, and North. The holders are the individual creditors—citizens of the United Netherlands, Great Britain, France, and of these States, North, Middle, South. Though some men, who constantly substitute hypothesis to fact, imagination to evidence, assert and reassert that the inhabitants of the South contribute *more* than those of the North, yet there is no pretence that they contribute *all*; and even the assertion of greater contribution is unsupported by documents, facts, or, it may be added, probabilities. Though the inhabitants of the South manufacture

less than those of the North, which is the great argument, yet it does not follow that they consume more of taxable articles. It is a solid answer to this, that *whites* live better, wear more and better clothes, and consume more luxuries, than blacks, who constitute so considerable a part of the population of the South; that the inhabitants of cities and towns, which abound so much more in the North than in the South, consume more of foreign articles than the inhabitants of the country; that it is a general rule, that communities consume and contribute in proportion to their active or circulating wealth, and that the Northern regions have more active or circulating wealth than the Southern.

If official documents are consulted, though, for obvious reasons, they are not decisive, they contradict rather than confirm the hypothesis of greater proportional contribution in the Southern division.

But, to make the allegation in the objection true, it is necessary not merely that the inhabitants of the South should contribute more, but that they should contribute *all*.

It must be confessed that a much larger proportion of the debt is owned by inhabitants of the States from Pennsylvania to New Hampshire, inclusively, than in the States south of Pennsylvania.

But as to the primitive debt of the United States, that was the case in its original concoction. This arose from two causes: first, from the war having more constantly been carried on in the Northern quarter, which led to obtaining more men and greater supplies in that quarter, and credit having

been for a considerable time the main instrument of the government, a consequent accumulation of debt in that quarter took place; secondly, from the greater ability of the Northern and Middle States to furnish men, money, and other supplies, and from the greater quantities of men, money, and other supplies which they did furnish. The loan-office debt, the army debt, the debt of the five great departments, was contracted in a much larger proportion in the Northern and Middle, than in the Southern, States.

It must be confessed, too, that by the attraction of a superior moneyed capital the disparity has increased, but it was great in the beginning.

As to the assumed debt, the proportion in the South was at the first somewhat larger than in the North, and it must be acknowledged that this has since, from the same superiority of moneyed capital in the North, ceased to be the case.

But if the Northern people who were originally greater creditors than the Southern, have become still more so as purchasers, is it any reason that an honorable provision should not be made for their debt? Or is the government to blame for having made it? Did the Northern people take their property by violence from the Southern, or did they purchase and pay for it?

It may be answered that they obtained considerable part of it by speculation, taking advantage of superior opportunities of information.

But admitting this to be true in all the latitude in which it is commonly stated, is a government to

bend the general maxims of policy and to mould its measures according to the accidental course of private speculations? Is it to do this, or omit that, in cases of great national importance, because one set of individuals may gain, another lose, from unequal opportunities of information, from unequal degrees of resource, craft, confidence, or enterprise?

Moreover, there is much exaggeration in stating the manner of the alienation of the debt. The principal speculations in State debts, whatever may be pretended, certainly began after the promulgation of the plan for assuming by the report of the Secretary of the Treasury to the House of Representatives. The resources of individuals in this country are too limited to have admitted of much progress in purchases before the knowledge of that plan was diffused throughout the country. After that, purchasers and sellers were upon equal ground. If the purchasers speculated upon the sellers, in many instances the sellers speculated upon the purchasers. Each made his calculation of chances, and founded upon it an exchange of money for certificates. It has turned out generally that the buyer had the best of the bargain, but the seller got the value of his commodity according to his estimate of it, and probably in a great number of instances more. This shall be explained.

It happened that Mr. Madison and some other distinguished characters of the South started in opposition to the assumption. The high opinion entertained of them made it be taken for granted in that quarter that the opposition would be successful.

The securities quickly rose, by means of purchases, beyond their former prices. It was imagined that they would soon return to their old station by a rejection of the proposition for assuming. And the certificate-holders were eager to part with them at their current prices, calculating on a loss to the purchasers from their future fall. This representation is not conjectural; it is founded on information from respectable and intelligent Southern characters, and may be ascertained by inquiry.

Hence it happened that the inhabitants of the Southern States sustained a considerable loss by the opposition to the assumption from Southern gentlemen, and their too great confidence in the efficacy of that opposition.

Further, a great part of the debt which has been purchased by Northern and Southern citizens has been at higher prices—in numerous instances beyond the true value. In the late delirium of speculation large sums were purchased at twenty-five per cent. above par and upward.

The Southern people, upon the whole, have not parted with their property for nothing. They parted with it voluntarily, in most cases, upon fair terms, without surprise or deception—in many cases for more than its value. 'T is their own fault if the purchase money has not been beneficial to them; and the presumption is, it has been so in a material degree.

Let, then, any candid and upright mind, weighing all the circumstances, pronounce whether there be any real hardship in the inhabitants of the South

being required to contribute their proportion to a provision for the debt as it now exists? whether, if at liberty, they could honestly dispute the doing of it? or whether they can, even in candor and good faith, complain of being obliged to do it?

If they can, it is time to unlearn all the ancient notions of justice and morality, and to adopt a new system of ethics.

OBJECTION 21.—That the antifederal champions are now strengthened in argument by the fulfilment of their predictions, which has been brought about by the monarchical federalists themselves, who, having been for the new government merely as a stepping-stone to monarchy, have themselves adopted the very constructions of the Constitution, of which, when advocating the acceptance before the tribunal of the people, they declared it insusceptible; whilst the republican federalists, who espoused the same government for its intrinsic merits, are disarmed of their weapons,—that which they denied as prophecy being now become true history. Who, therefore, can be sure, they ask, that these things may not proselyte the small number which was wanting to place the majority on the other side? And this, they add, is the event at which they tremble.

ANSWER.—All that can be said in answer to this has been already said. It is much to be wished that the true state of the case may not have been, that the antifederal champions have been encouraged in their activity by the countenance which has been given to their principles by certain federalists who, in an envious and ambitious struggle for power,

influence, and pre-eminence, have embraced as auxiliaries the numerous party originally disaffected to the government, in the hope that these, united with the factious and feeble-minded federalists whom they can detach will give them the predominancy. This would be nothing more than the old story of personal and party emulation.

The antifederal champions alluded to may be taught to abate their exultation by being told that the great body of the federalists, or rather the great body of the people, are of opinion that none of their predictions have been fulfilled, that the beneficial effects of the government have exceeded expectation, and are witnessed by the general prosperity of the nation.

ADDRESS TO THE PUBLIC CREDITORS ¹

BY A FRIEND.

September 1, 1790.

It is probable that many of you are not sufficiently apprised of the advantages of your own situation, and that for want of judging rightly of it, and of your future prospects, you may be tempted to part with your securities much below their true value, and considerably below what it is probable

¹ This address and the vindication which follows, if the dates alone were to be observed, should have come after the official reports of 1790 and 1791. They have, however, a more immediate connection with the preceding letter to Washington as parts of the defence of the funding system, and this address in particular shows how Hamilton at the very outset attempted through the newspapers to check the tide of speculation and to prevail on the original holders of the debt not to part with their securities.

they will sell for in eight or nine months from this time.

To guard you against an unnecessary sacrifice of your interests by a precipitate sale, I will now state to you, in a plain and concise way, what has been done for you in the course of the last session of Congress, and what you may reasonably expect.

EFFECTUAL provision has been made for *actually* paying you six per cent. yearly, on two thirds of the principal of your debt—that is, four per cent. on the whole amount of your principal. And at the end of ten years you are to receive six per cent. yearly, on the remaining third of your principal—that is, two per cent. more on the whole of your principal. And like *effectual* provision has been made for *actually* paying you three per cent. yearly, on whatever arrears of interest may be due to you on your principal. For this interest you are not even to wait to the end of a year, but you are to receive it in quarterly payments—that is to say, one fourth part at the end of every three months; and it is to be paid to you not in new certificates, or paper money, but in actual gold and silver. To secure this to you, the duties which have been laid on goods imported, and on the tonnage of ships or vessels (and which there is every reason, from the experience we have had, to believe will be sufficient), are absolutely *mortgaged* to you, till the whole of your debt is discharged. You will not have to depend, as under most of the State governments, upon a provision from year to year, with an entire uncertainty whether it would be continued, and with many examples of fickleness and

change; but you will have to depend on a permanent provision made once for all, for the sacredness of which the faith, not of a single State, but of all the States, is solemnly bound to you, and which cannot be undone or altered, without the concurrence of three different branches of the government—the House of Representatives, the Senate, and the President of the United States. It cannot be supposed that if one of the two branches of Congress should hereafter be disposed to do so disgraceful and ruinous a thing as to repeal a law on which the credit of the government was at stake, that the other branch would be willing to concur in so pernicious a measure; or if both should be so unwise and dishonest, that the President of the United States would give his assent to it, or if he dissented, that two thirds of both Houses of Congress would be inclined to persist in spite of his disapprobation. Whoever considers the nature of our government with discernment will see, that though obstacles and delays will frequently stand in the way of the adoption of good measures, yet, when once adopted, they are likely to be stable and permanent. It will be far more difficult to *undo* than to *do*.

To destroy your confidence in future, there are too many publications which represent to you that Congress have, by their late proceedings, violated their past engagements, and that you can place no greater reliance upon those they now make than those they have heretofore made. Whether representations like these proceed from a sincere opinion in persons who have not accurately considered the matter, or

from those who wish to depreciate the government, or from those who wish to buy securities cheap, or from all these descriptions of persons, I cannot say; but from whatever source they proceed, they are certainly not candid nor just.

Congress, it is true, submit to your consideration some alterations in the nature of your claims upon the government, for certain equivalents which they hold out to you, and of which you are to judge. A principal object they have in doing this is to obtain a suspension of the payment of one third of the interest, to which you are entitled for ten years, in order to avoid the necessity of burthening the community, or carrying the taxation to objects which might be displeasing to them. And you cannot wonder that a government so lately formed, and not without considerable opposition, should be cautious in this respect.

But whether you will accept the terms offered to you is certainly left to your own choice. There is not a syllable in the law that obliges you to do it. On the contrary, there is in it an express ratification of your former contracts; and to remove all possibility of future cavil about the true import or obligation, all questions of discrimination and the like, new titles are offered to you of the like import in substance with your old ones. And your rights are thus established, and their meaning defined, so as to render their future operation, under the sanction of the Constitution, unequivocal. They are not only not violated, but if possible they have received additional strength, and have become still more inviolable.

So far is there from being any thing compulsory in the acts of the government in the case, that those of you who do not choose to subscribe to the new terms are to receive, during the time allotted for determining upon them, exactly as much as those who do subscribe. And the faith of the government remains pledged to you to fulfil its engagements, which must be performed, as fast as its resources can be brought into action for the purpose. Your only security before the late arrangement was the faith of government. There were no funds pledged to you which have been taken away. You have still the faith of government upon a renewed assurance as your pledge, and while you are deliberating on the new proposals you are to receive a payment on account.

You are therefore to decide according to your own judgment, whether an acceptance of the new terms, under all these circumstances, are preferable or not to a dependence on the future resources of the country for more. This is a question of prudent calculation which you are at liberty to determine as you please.

Whence it is evident, that whatever other objections may be against the propriety of the provision which has been made for the public debt, the charge of a breach of contract is not well founded.

The better to form a comparison between the terms proposed and those of your former contract, it may be well to recollect that the latter will be satisfied by a provision, *annually* made, for paying you six per cent. Whatever the policy of the govern-

ment may hereafter dictate, there is nothing in the existing contract that calls for a *permanent appropriation* of funds. Such a *permanent appropriation*, however, forms a part of the new loans, and will be of the essence of the new contract.

These remarks are intended to satisfy you that there is no cause, from any thing that has happened, for a diminution, but on the contrary much reason for an increase, of your confidence in the property you possess, as holders of the public debt.

I return to the subject of the value of your securities. Their present price, if compared with that at which they were current before the establishment of the new Constitution, will be deemed to be *high*, and is as great as at this time could reasonably have been expected; but compared with their true value, and the solidity of footing on which they stand, is still far too low. The rise which has already taken place is an earnest to you of their probable future rise. Such of you who do not incline to be permanent holders will at least do well to postpone a sale till after March, when the first payment of interest is to be made. The effect of this on the price of securities must undoubtedly be very favorable, and you may then calculate on a better market.

The holders of State securities have still stronger reasons for keeping those they have, the price of which, in most of the States, is out of all proportion lower than that of the present securities of the United States, and must, in all probability, undergo a considerable change for the better, as soon as funds are actually appropriated for them, which is

not now the case, but which must of course be so at the ensuing session of December. The present debt of the United States having been provided for out of the duties on imposts and tonnage only, seems to leave no doubt of the facility of devising the means of providing for the amount which has been assumed of the State debts.

END OF VOL. II.





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[HAMILTON—*The Farmer Refuted*, 1775, *Æt.* 18.]

"We are laboring hard to establish in this country principles more and more *national*, and free from all foreign ingredients, so that we may be neither 'Greeks nor Trojans,' but truly *Americana*."—[HAMILTON TO KING, 1795, *Æt.* 39.]

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FINANCE (*Continued*)

FINANCE (*Continued*)

VINDICATION OF THE FUNDING SYSTEM

NUMBER ONE

1791 (?)

IT was to have been foreseen, that though the virtuous part of those who were opposed to the present Constitution of the United States, while in deliberation before the people, would yield to the evidence which experience would afford of its usefulness and safety, there were opponents of a certain character, who, as happens in all great political questions, would always remain incurably hostile to it; that in the course of its administration its greatest merits would be in the eyes of such men its greatest blemishes, its most brilliant successes to them occasions of bitter chagrin and envious detraction, its slightest mismanagements subjects of malignant exaggeration, its most trivial misfortunes the welcome topics of virulent accusation and insidious misrepresentation.

With some men the hardest thing to forgive is the demonstration of their errors,—the manifestation that they are not infallible. Mortified vanity is one of the most corroding emotions of the human mind;

one of the most unextinguishable sources of animosity and hatred.

It was equally to have been foreseen, that personal disappointments would be likely to alienate from the government some individuals who had at first advocated its adoption, perhaps from motives not the most patriotic or commendable; that personal rivalships and competitions would throw others into an opposition to its measures, without much regard to their intrinsic merits or demerits; and that a third class would embrace the path of opposition as the supposed road to popularity and preferment, raising upon every colorable pretext the cry of danger to liberty, and endeavoring to disseminate among the people false terrors and ill-grounded alarms.

Phenomena like these have deformed the political horizon, and testify the depravity of mankind, in all countries and at all times.

It was likewise to have been expected that among the well-meaning friends of the government, there would be a part, competent to the proper management of the affairs of the Union, who, sensible from experience of the insufficiency of the former system, gave their assent to the substitute offered to their choice, rather from general impressions of the necessity of a change, than from an accurate view of the necessary compass of the authorities which ought to constitute it.

When they came to witness the exercise of those authorities upon a scale more comprehensive than they had contemplated, and to hear the incendiary comments of those who will ever be on the watch for

pretexts to brand the proceedings of the government with imputations of usurpation and tyranny, and the factious and indiscreet clamors of those who, in and out of the Legislature, with too much levity, torture the Constitution into objections to measures which they deem inexpedient;—it was to have been expected, I say, that some such men might be carried away by transient anxieties and apprehensions, and might for a moment add weight to an opposition which could not fail to grow out of other causes, and the real objects of which they would abhor.

There is yet another class of men, who, in all the stages of our republican system, either from desperate circumstances, or irregular ambition, or a mixture of both, will labor incessantly to keep the government in a troubled and unsettled state, to sow inquietudes in the minds of the people, and to promote confusion and change. Every republic at all times has its Catilines and its Cæsars.

Men of this stamp, while in their hearts they scoff at the principles of liberty, while in their real characters they are arbitrary, persecuting, and intolerant, are in all their harangues and professions the most zealous; nay, if they are to be believed, the only friends to liberty. Mercenary and corrupt themselves, they are continually making a parade of their purity and disinterestedness, and heaping upon others charges of peculation and corruption. Extravagant and dissipated in their own affairs, they are always prating about public economy, and railing at the government for its pretended profusion. Conscious that as long as the confidence of the people

shall be maintained in their tried and faithful servants, in men of real integrity and patriotism, their ambitious projects can never succeed, they leave no artifice unessayed, they spare no pains to destroy that confidence, and blacken the characters that stand in their way.

Convinced that as long as order and system in the public affairs can be maintained, their schemes can never be realized, they are constantly representing the means of that order and system as chains forged for the people. Themselves the only plotters and conspirators, they are for ever spreading tales of plots and conspiracies; always talking of the republican cause, and meaning nothing but the cause of themselves and their party; virtue and liberty constantly on their lips, fraud, usurpation, and tyranny in their hearts.

There is yet another class of opponents to the government and its administration, who are of too much consequence not to be mentioned: a sect of political doctors; a kind of POPES in government; standards of political orthodoxy, who brand with heresy all opinions but their own; men of sublimated imaginations and weak judgments; pretenders to profound knowledge, yet ignorant of the most useful of all sciences—the science of human nature; men who dignify themselves with the appellation of philosophers, yet are destitute of the first elements of true philosophy; lovers of paradoxes; men who maintain expressly that religion is not necessary to society, and very nearly that government itself is a nuisance; that priests and clergymen of all descriptions are

worse than useless. Such men, the ridicule of any cause that they espouse, and the best witnesses to the goodness of that which they oppose, have no small share in the clamors which are raised, and in the dissatisfactions which are excited.

While the real object of these clamors, with the persons most active in propagating them, is opposition to the administration of it; while they are straining every nerve to render it odious, they are profuse in their professions of attachment to it. To oppose avowedly the *work of the people* would be too barefaced. It would not accord with that system of treacherous flattery, which is the usual engine of these pretended "friends," but real betrayers, of the people.

Circumstances require that the mode of attack be changed. The government is to be good, if not excellent, but its administration is to be execrable,—detestable,—a mere sink of corruption; a deep-laid plan to overturn the republican system of the country.

Suspensions of the most flagitious prostitution and corruption in office, of improper connections with brokers and speculators to fleece the community, of the horrid depravity of promoting wars, and the shedding of human blood, for the sake of sharing collusively the emoluments of lucrative contracts, suspicions like these are, if possible, to be thrown upon men, the whole tenor of whose lives gives the lie to them; who, before they came into office, were never either *land-jobbers*, or *stock-jobbers*, or *jobbers* of any other kind; who can appeal to their fellow-citizens of every other party and description to attest

that their reputations for probity are unsullied, that their conduct in all pecuniary concerns has been nicely correct and even exemplarily disinterested; who, it is notorious, have sacrificed and are sacrificing the interests of their families to their public zeal; who, whenever the necessity of resisting the machinations of the enemies of the public quiet will permit them to retire, will retire poorer than they came into office, and will have to resume under numerous disadvantages the pursuits which they before followed under every advantage. Shame, where is thy blush? — if detraction so malignant as this can affront the public ear. Integrity, where is thy shield? where thy reward?—if the poisonous breath of an unprincipled cabal can pollute thy good name which thou incessantly toiled to deserve.

People of America, can ye be deceived by arts like these? Will ye suffer yourselves to be cheated out of your confidence in men who deserve it most? Will ye be the dupes of hypocritical pretenders?

Think for yourselves. Look around you. Consult your own experience. If any of you have doubts, listen calmly and dispassionately to the arguments and facts which, in the course of the following numbers, shall be opposed to the suggestions which would persuade you that the administration of your government has been in the aggregate weak or wicked, or both.

NUMBER TWO

Of all the measures of the government, that which has been most bitterly inveighed against is the fund-

ing system, contained in the act making provision for the debt of the United States. As well for this reason, as on account of its superior importance, the objections which have been made to it are entitled to an examination in the first place.

It is a curious phenomenon in political history (not easy to be paralleled), that a measure which has elevated the credit of the country from a state of absolute prostration to a state of exalted pre-eminence, should bring upon the authors of it obloquy and reproach.

It is certainly what, in the ordinary course of human affairs, they could not have anticipated. They are not here chargeable with arrogance, if they indulged from it the hope of credit and applause; and if the clamors which have been raised have truly proceeded, as the clamorers assure us, from patriotic motives, it must be confessed that they have the additional merit of novelty and singularity.

There must be something original in the passions as well as in the ideas of the sect to which they are attributable. It will be hardly possible not to believe, that some mysterious work of political regeneration has begun to make its way in the world, and that all those who have not been the subjects of it are in a state of pitiable darkness and error.

The two first points which, in considering the funding system, present themselves to attention, are the *existence* and the *composition* of the debt funded.

A person who, unacquainted with the fact, should learn the history of our debt from the declamations with which certain newspapers are perpetually

charged, would be led to suppose that it is the mere creature of the *present* government for the purpose of burthening the people with taxes, and producing an artificial and corrupt influence over them; he would, at least, take it for granted that it had been contracted in the pursuit of some wanton or vain project of ambition or glory; he would scarcely be able to conceive that every part of it was the relict of a war which had given independence and preserved liberty to the country; that the present government found it as it is, in point of magnitude (except as to the diminutions made by itself), and has done nothing more than to bring under a regular regimen and provision what was before a scattered and heterogeneous mass.

And yet this is the simple and exact state of the business. The whole of the debt embraced by the provisions of the funding system consisted of the unextinguished principal and arrears of interest of the debt which had been contracted by the United States in the course of the late war with Great Britain, and which remained uncanceled, and the principal and arrears of interest of the separate debts of the respective States contracted during the same period, which remained *outstanding and unsatisfied, relating to services and supplies for carrying on the war*. Nothing more was done by that system than to incorporate these two species of debt into the mass, and to make for the whole one general, comprehensive provision.

There is, therefore, no arithmetic, no logic, by which it can be shown that the funding system has augmented the aggregate debt of the country. The

sum total is manifestly the same; though the parts which were before divided are now united.

There is, consequently, no color for an assertion that the system in question either created any *new* debt, or made any addition to the *old*.

And it follows that the collective burthen upon the people of the United States must have been as great *without* as *with* the union of the different portions and descriptions of the debt. The only difference can be, that without it that burthen would have been otherwise distributed, and would have fallen with unequal weight instead of being equally borne as it now is.

These conclusions which have been drawn respecting the non-increase of the debt proceed upon the presumption that every part of the public debt, as well that of the States individually as that of the United States, was to have been honestly paid.

If there is any fallacy in this supposition, the inferences may be erroneous, but the error would imply the disgrace of the United States, or parts of them—a disgrace from which every man of true honor and genuine patriotism will be happy to see them rescued.

When we hear the epithets, "vile matter," "corrupt mass," bestowed upon the public debt, and the owners of it indiscriminately maligned as the harpies and vultures of the community, there is ground to suspect that those who hold the language, though they may not dare to avow it, contemplate a more summary process for getting rid of debts than that of paying them. Charity itself cannot avoid concluding from the language and conduct of some men (and

some of them of no inconsiderable importance), that in their vocabularies *creditor* and *enemy* are synonymous terms, and that they have a laudable antipathy against every man to whom they owe money, either as individuals or as members of the society.

It has been said that the sum of the debt to be ultimately provided for has been artificially increased by the plan for the settlement of accounts between the United States and individual States. This point will most properly be the subject of a distinct examination, as the act which settles the accounts is a distinct one from that which establishes the funding system. It will appear, upon examination, that there is no foundation for the assertion, and, moreover, that the plan which has been adopted by the present government for the settlement of the accounts is essentially a recapitulation of that which was adopted under the Confederation, and which established principles which were not only equitable in themselves, but could not have been reversed without an infraction of the public faith.

NUMBER THREE

My last number contained a concise and simple statement of facts tending to show that the public debt was neither created nor increased by the funding system, and, consequently, that it is not responsible either for the existence or the magnitude of the debt.

It will be proper next to examine the allegations which have been made of a contrary tendency.

In the first place, it is asserted that the debt is

greater than it ought to be, because, from the state of depreciation in which the government found it, a much less provision for it than that which was made might have sufficed. A saving of nearly one half, it is said, might have been made by providing for it in the hands of alienees, at least at 8s. or 10s. in the pound, who, having come by it at a much less rate, would have been well compensated by such a provision.

To a man who entertains correct notions of public faith, and who feels as he ought to feel for the reputation and dignity of the country, it is mortifying to reflect that there are partisans enough of such a doctrine to render it worth the while to combat it. It is still more mortifying to know that in that class are comprehended some men who are in other respects sober-minded and upright, friends to order, and strenuous advocates for the rights of property.

In reasoning upon all subjects, it is necessary to take, as a point of departure, some principle in which reasonable and sound minds will agree. Without this there can be no argument, no conclusion, in moral or political more than in physical or mathematical disquisitions.

The principle which shall be assumed here is this, that the established *rules of morality and justice are applicable to nations as well as to individuals*; that the *former* as well as the *latter* are bound to *keep their promises; to fulfil their engagements to respect the rights of property* which others have acquired under contracts with them. Without this there is an end of all distinct ideas of right or wrong, justice or

injustice, in relation to society or government. There can be no such thing as rights, no such thing as property or liberty; all the boasted advantages of a constitution of government vanish into air. Every thing must float on the variable and vague opinions of the governing party, of whomsoever composed.

To this it may be answered that the doctrine, as a general one, is true, but that there are certain great cases which operate as exceptions to the rule, and in which the public good may demand and justify a departure from it.

It shall not be denied that there are such cases; but as the admission of them is one of the most common as well as the most fruitful sources of error and abuse, it is of the greatest importance that just ideas should be formed of their true nature, foundation, and extent. To minds which are either depraved or feeble, or under the influence of any particular passion or prejudice, it is enough that cases are only attended with some *extraordinary circumstances* to induce their being considered as among the exceptions. *Convenience* is with them a substitute for *necessity*, and some temporary, partial advantage is an equivalent for a fundamental and permanent interest of society. We have too often seen in the United States examples of this species of levity. The treaties of the United States, the sacred rights of private property, have been too frequently sported with, from a too great facility in admitting exceptions to the maxims of public faith and the general rules of property. A desire to escape from this evil was a principal cause of the union which took place among good men to

establish the national government; and it behoved its friends to have been particularly cautious how they set an example of equal relaxation in the practice of that very government.

The characteristics of the only admissible exceptions to the principle that has been assumed, are—
1st. NECESSITY. 2d. There being some intrinsic and inherent quality in the thing which is to constitute the exception, contrary to the social order and to the permanent good of society.

Necessity is admitted in all moral reasoning as an exception to general rules. It is of two kinds, as applied to nations—where there is want of ability to perform a duty, and then it is involuntary; and where the general rule cannot be observed without some *manifest* and *great* national calamity.

If from extraordinary circumstances a nation is disabled from performing its stipulations, or its duty in any other respect, it is then excusable on the score of inability. But the inability must be a real, not a pretended, one; one that has been experimentally ascertained, or that can be demonstrated to the satisfaction of all honest and discerning men. And the deviation ought to be as small as possible; all that is practicable ought to be done.

A nation is alike excusable in certain extraordinary cases for not observing a right or performing a duty, if the one or the other would involve a *manifest* and *great* national calamity. But here, also, an extreme case is intended; the calamity to be avoided must not only be evident and considerable—it must be such an one as is like to prove fatal to the nation, as

threatens its existence, or at least its permanent welfare.

War, for instance, is almost always a national calamity, of a serious kind; but it ought often to be encountered in protection *even* of a *part* of the community injured or annoyed; or in performance of the condition of a defensive alliance with some other nation.

But if such special circumstances exist in either case, that the going to war would eminently endanger the existence or permanent welfare of the nation, it may excusably be forborne.

Of the second class of exceptions, the case of certain feudal rights, which once oppressed all Europe, and still oppress too great a part of it, may serve as an example; rights which made absolute slaves of a part of the community, and rendered the condition of the greatest proportion of the remainder not much more eligible.

These rights, though involving that of property, being contrary to the social order, and to the permanent welfare of society, were justifiably abolished in the instances in which abolitions have taken place, and may be abolished in all the remaining vestiges.

Wherever, indeed, a right of property is infringed for the general good, if the nature of the case admits of compensation, it ought to be made; but if compensation be impracticable, that impracticability ought not to be an obstacle to a clearly essential reform.

In what has been said, the cases of exception have been laid down as broad as they ought to be. They are cases of extremity—where there is a palpable

necessity—where some great and permanent national evil is to be avoided—where some great and permanent national good is to be obtained. It must not be to avoid a temporary burthen or inconvenience—to get rid of a particular, though a considerable evil, or to secure a partial advantage. A relaxation of this kind would tend to dissolve all social obligations—to render all rights precarious, and to introduce a general dissoluteness and corruption of morals.

A single glance will suffice to convince that the case of the debt of the United States was not one of those cases which could justify a clear infraction of the fundamental rules of good faith, and a clear invasion of rights of property acquired under the most unequivocal national stipulations.

If there was any doubt before, the real facility with which a provision for the debt has been made removes it; a provision which touches no internal source of revenue but the single article of distilled spirits, and lays upon that a very moderate duty.

But a history of the real state of the debt when it was taken up by the government will put the matter out of all doubt. This shall constitute the subject of my next number.

NUMBER FOUR

The debt proper, or the original debt of the United States, in its primary sense, may be classed under four general heads: 1st, the old emissions of Continental money; 2d, the loan office debt, contracted for moneys lent to the government; 3d, the army

debt, contracted for the pay and commutation of the army: 4th, the debt of the five great departments, as they are called in the resolution of Congress, being for services and supplies in the Marine Department, the Quartermaster's, Commissary's, Clothing, and Hospital Departments.

Emanations from these were the registered debt, so denominated from new kinds of certificates issued by the Register of the Treasury in lieu of the former evidences. Indents of interest being a species of paper payable to bearer, which, by different resolutions of Congress, were issued on account of arrears of interest on the old debt. The new emission money is not added to the enumeration, because it was issued upon funds of the respective States, with only a guaranty of the United States, and falls, perhaps, most properly, in the class of State debts.

Of this original debt, it appears by a statement of the Register of the Treasury, published Sept. 30, 1791,¹ not less than \$16,900,203 73 in its first concoction, belonged to citizens of the States from Pennsylvania to New Hampshire inclusively; the remaining belonging to States from Maryland to Georgia inclusively, in nearly the following proportions: to Maryland, \$1,697,910 34; to Virginia, \$1,024,104 26; to North Carolina, \$28,994 75; to South Carolina, \$299,109 88; to Georgia, \$97,233 03. The reasons of this state of things are obvious. Until

¹ This date and all the figures which follow are blank in the edition of 1850. I have filled them from the Register's report, which I think must be the one referred to, of Sept. 30, 1791. (See *American State Papers*, "Finance," vol. i., p. 149.)

the year 1779 the principal theatre of the war had been in the States from Pennsylvania north; and after that period, to the close of it, the principal part of the enemy's force remained stationary at New York, which obliged the keeping up in the same quarter large bodies of troops till the termination of the war.

The natural consequence of this state of things was, that a very large proportion of the means for carrying on the war—men, money, and other supplies—were drawn from the States comprehended in the first division. They indeed possessed greater comparative resources than the more southern States, and with only the same degree of zeal could furnish more to the common cause. Obvious causes always conspire to occasion larger aids to be drawn from the vicinity of the war than from more distant parts of the country, and the main dependence of the United States being credit, a large debt was created in the scene from which the principal supplies came.

The use of this statement of the original distribution of the debt will appear hereafter.

A leading character of every part of the debt is, that it was in its origin made alienable. It was payable to the *holder*, either in capacity of assignee or bearer, far the greatest part of the latter description. The contract, therefore, was, in its very *issue*, a contract between the government and the actual holder.

A considerable part of the debt was consequently alienated by the first proprietors at different periods, from its commencement down to the time of passing the funding act.

But this has been much exaggerated, both as to the

quantity alienated and as to the rates of alienation. The declamations on the subject have constantly represented far the greatest part of the debt in the hands of alienees, and have taken the lowest price at which it ever was in the market as the common standard of the alienation. The changes have been rung upon two shillings and sixpence in the pound, in all the arguments which have advocated a violation of the rights of the alienees.

Neither the first nor the last supposition is true. As to the first point, namely, the quantity of the debt alienated, there are no documents by which it can be satisfactorily ascertained, which of course gives full scope to imagination.

But there is an important fact which affords strong evidence that the quantity has always been much less considerable than has been supposed.

In the year 1786 the State of New York passed a law permitting the holders of Continental securities to bring them in and receive in exchange for them State securities upon certain conditions, which were generally deemed for the advantage of the holders to accept. The same arrangement embraced an exchange of old State securities for new.

In the event of this exchange, which was completed by the 1st of May, 1787, it appeared that about two thirds ¹ of the debt remained in the hands of the original proprietors.

¹ This as well as the two preceding dates is blank in the edition of 1850. The dates are filled from the laws of New York for 1786. The proportion of alienated debt I have calculated from the returns of the State Treasurer of New York.—*American State Papers*, "Finance," i.,

Alienations after this period. . . .

It may be stated as a fact, that there always has prevailed in the States north of New York, a more firm confidence in an eventual provision for the debt than existed in that State; and it may be inferred that the alienation was still less in those States than in the State of New York.

In Jersey and Pennsylvania, it is probable that the alienations were not more considerable in their degree than in New York. In Maryland they may be supposed to have been still less, on account of that State having made a better provision for its debt than any other, and having included in it Continental securities in the hands of its own citizens by an exchange of certificates.

It is probable from information, though not certainly known, that a more considerable alienation in proportion had taken place in the States south of Maryland. But making all due allowance for this, and taking into the account that the principal part of the debt was originally owned from Pennsylvania north, the probability still is, that the progress of alienation has been much less rapid than has been conjectured. Nothing is more natural than a mistake on this point. The dealers in the debt in the principal cities appeared to be continually engaged in buying and selling large sums; and it has not been their fault generally, to underrate the extent of their

p. 30. The "Alienations" since May, 1787, I have not been able to ascertain. This defence of the funding system was not apparently published, hence its incomplete state and the consequent blanks for figures.

dealings. Thence it came to be imagined that the whole debt, or the greatest part of it, was in the market; whereas a small sum comparatively was sufficient to satisfy all the appearances. Banded incessantly from hand to hand, a few hundred thousand dollars appeared like as many millions.

The best inquiries on the subject will lead to an opinion that there never was, prior to the funding system, three millions of dollars of floating debt in all the great stock markets of the United States. And the whole sum which had been acquired by foreigners, was about ———. From all which it is very questionable whether one third of the debt in the hands of alienees at the time when Congress began to deliberate concerning a provision for it would not be an ample allowance.

With regard to the terms of alienation, they have varied from 20s. down to 2s. 6d. in the pound.

There are several considerable classes of alienees, who hold the debt at full or high values:

I. Those who advanced moneys or furnished supplies to public officers upon loan-office certificates, issued to those officers in their own names. An example of this exists in the cases of purchases made during the war by public officers. Warrants from the Treasury would frequently be drawn in their favor upon the commissioners of loans, who would often furnish loan-office certificates in their own names in payment of those warrants. For these certificates the officers would sometimes procure the current paper in exchange, and would transfer the certificates to those who advanced the money. In other cases

they would pay for supplies in the certificates themselves, which they would in like manner transfer. This is a very extensive case.

II. Those whose money has been placed in the funds by trustees or agents, who took out certificates in their own names, and afterwards assigned them to the true proprietors.

An instance of this was mentioned in the debates in Congress on the subject of a discrimination between original and present holders, and can be ascertained by any one who will take the pains to inquire. It was that of a Mr. Caldwell, a respectable clergyman and zealous patriot in New Jersey, who acted for some time during the war in the capacity of deputy quartermaster. In that capacity he frequently had money to pay to individuals, which, at their desire, he would place in the loan-office for them, take certificates in his own name, and afterwards transfer them to the persons whose money he had deposited. There are likewise instances, not a few, of trustees and agents for absent persons and minors, who placed the moneys of those whom they represented in the loan-offices, took out certificates in their own names, and afterwards transferred them to the parties entitled.

III. Those who, by laws of particular States, were compelled to take certificates at the full value in payment of debts.

A law of the State of New York, passed in the year —, obliged all persons who had resided within the British lines during the war to receive, in satisfaction of their debts from those who had been without the lines, certificates.

IV. Those who, at different periods, voluntarily received certificates in payment of debts. This, in some States, is a very extensive case. From the precarious situation in which all persons were placed by the Revolution, whose property was merely personal, it was no uncommon thing for creditors to receive from their debtors certificates in payment of debts; and this was almost always at high values.

Even since the peace, compromises between creditors and debtors, especially those whose fortunes had been injured by the war, in which certificates were received at full value.—*Cætera desunt.*

PAYMENTS OF PUBLIC DEBT

August 29, 1792.

The following authentic documents respecting the progress which has been made by the *present* Government of the United States, toward extinguishing the debts contracted under the former Government, will, it is presumed, be very acceptable to the people of the United States; and it is hoped that the different editors of newspapers will give the information the general circulation which its importance merits.

I

TREASURY DEPARTMENT,
REGISTER'S OFFICE, August 24, 1792.

SIR:—I have the honor to enclose an abstract and statement of the debt incurred by the late Government, and which has been paid off from the funds of the present Government, amounting to one million eight hundred and forty-five thousand two hundred and seventeen

dollars forty-two cents; but this sum will be increased, when the balance of three hundred and ninety-seven thousand twenty-four dollars thirteen cents, remaining to be appropriated to the further purchase of the public debt, shall be applied, and which more particularly appears by the subjoined statement.

With every sentiment of the highest respect, I have the honor to be, Sir,

Your most obedient and most humble servant,
 JOSEPH NOURSE,
Register.

HON. ALEXANDER HAMILTON,
Secretary of the Treasury.

II

Statement of the balance which remains to be applied to the further purchase of the Public Debt

By the Act passed 12th August, 1790, making provision for the reduction of the Public Debt, Section 2d, it is enacted, That all such surplus of the product of the duties arising from impost and tonnage to 31st December, 1790, after satisfying the several appropriations therein specified, shall be applied to the purchase of the public debt.

The product of said duties were	. . .	\$3,026,070	65½
The total appropriations were	. . .	1,687,194	81

The surplus fund to 31st December, 1790	\$1,338,875	84½
Deduct the amount paid for	\$1,456,743	18
of the public debt extinguished as		
per abstract	941,851 69

Leaves a balance which remains to be applied to the further purchases of the public debt	\$397,024	15½
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III

An abstract Statement of the sum extinguished of the Public Debt, also of the payment from the funds of the present Government of certain claims which were incurred by the late Government.

PURCHASES OF THE PUBLIC DEBT

Amount thereof extinguished	\$1,456,743 38
Warrants drawn by the Board of Treasury under the late Government, and which have been discharged in pursuance of the Act of Congress of 29th September, 1789	157,789 94
Civil List: for various payments made upon accounts which originated under the late Government	25,768 50
War Department, being for arrearages of pay due to sundry officers of the army, and for provisions furnished	7,308 40
Abraham Skinner, late Commissary General of Prisoners, for the Board of American Prisoners of War at Long Island; appropriated by Congress, per their Act passed 12th August, 1790	38,683 13
Representatives of Mr. de Decoudray, balance of pay	2,977 24
Ditto Hon. John Laurens, his salary on an embassy to the French Court	6,017 31
Francis Dana, salary on an embassy to the Court of St. Petersburg	2,410 30
Benson, Smith, and Barker, their expenses attending the embarkation of the British troops at New York	1,000 00

Payments of Public Debt

27

His Most Christian Majesty, for military and ordnance stores supplied to American ships of war in the French West Indies	\$ 29,029 68
Oliver Pollock, for balance due him for supplies at New Orleans, with interest thereon, in conformity with the several Acts of Congress	108,605 00
MM. Gardoqui & Son, balance due for supplies furnished in Spain	502 86

\$550,542 14

Bills of exchange, which had been drawn on Foreign Commissioners, not paid by them	4,185 50
Timothy Pickering, late Quartermaster-General, being on account of the appropriation of \$40,000, passed July 1, 1790	2,077 89

Grants of Congress, viz.:

John McCord, per Act of Congress of 1st July, 1790	1,309 71
Jehoakim M. Tocksin, per Act of Congress of the 26th of March, 1790	120 00
Baron de Glaubeck, per Act of 29th September, 1789	140 26
Seth Harding, per Act 11th August, 1790	200 00
Caleb Brewster, ditto, ditto	348 57

\$2,118 54

\$1,845,217 42

TREASURY DEPARTMENT,
Register's Office, August 23, 1792.

JOSEPH NOURSE,
Register.

CIVIS TO MERCATOR

I

September 5, 1792.

Certain Treasury documents were lately published for the information of the community, without any precise designation of the purpose for which they were published. They were left to speak for themselves, with only a short introduction, denominating them "Authentic documents respecting the progress which has been made by the present Government of the United States towards extinguishing the debts contracted under the former Government."

A writer in this *Gazette*¹ of Saturday last, under the signature of Mercator, has thought fit to come forward, and, assigning what he conceives to be the object of the publication, endeavors to show that the contrary of what was intended is true.

What right had Mercator to suppose, that any thing more was intended, than simply to inform the public *that besides a punctual payment of the interest on the debt, from the period at which measures were matured to begin that payment, a considerable sum of the Capital of the Debt has been extinguished, and that a further sum will be extinguished by a provision already made?* leaving them to this very natural inference, which

¹ The *National Gazette*, edited by Philip Freneau. This newspaper and its editor, as is well known, caused the outbreak of the quarrel between Hamilton and Jefferson. Hamilton opened his attacks in response to those of Freneau just before the appearance of this letter. "Civis to Mercator" has hitherto been printed among the essays of the Jefferson controversy, but, as it is simply a defence of the funding system against the attacks of Freneau, it seems to belong more properly here among the writings on finance.

will be drawn by every candid mind, that the Government has been as attentive as circumstances would permit, at so early a period, to the extinguishment of the debt.

But admitting Mercator to be right in his suggestion of the object, it is presumed that a liberal construction of all circumstances will justify the position, that the present Government has reduced the debt of the former Government to the extent expressed in the documents which have been published. This will result, if it shall appear that provision was made for the interest as early as was reasonably practicable. To have paid the interest from that period, and to have sunk so much of the capital in addition, is, in fair construction, to have reduced the debt to the extent of the capital sunk.

When Mercator undertook to suppose an object which was not declared, he ought to have taken care to be better informed and more accurate. When he undertook to state an account with the Treasury Department, he ought not only to have selected just items, to have adverted to dates, times, and possibilities, but he ought to have stated *the whole account*.

This he has not done; on the contrary he has both misrepresented and suppressed facts. He has shown in the true spirit of a certain junto (who, not content with the large share of power they have in the government, are incessantly laboring to monopolize the whole of its power, and to banish from it every man who is not subservient to their preposterous and all-grasping views), that he has been far more solicitous to *arraign* than to manifest the truth—to take away,

than to afford consolation to the people of the United States.

The following particulars are proofs of his want both of accuracy and candor.

First.—He charges to the Treasury Department arrears of interest which accrued *prior* to its existence, that is, from the 1st of August, 1789; whereas the department was not instituted till the 2d of September, nor organized till about the 13th, when, I am informed, the Secretary of the Treasury entered upon the duties of his office.

Secondly.—He takes as the standard of his calculation, the whole amount of the annual interest on the whole amount of the public debt, as it exists under the present funding system, including all the arrears of interest made principal, and the \$21,500,000 of assumed debt—whereas the arrears which did actually accumulate to the end of the year 1790, were only on the *principal* of the foreign and domestic debt, and fall short more than a million of dollars of the sum he states.

These simple facts prove the fallacy of his statement.

But the principle upon which he proceeds is not less absurd than his calculations are fallacious.

With as much propriety might an executor be charged with increasing the debts of his testator, by suffering the arrears of interest on his bonds and notes to accumulate, while he was collecting, arranging, and disposing of the estate, as the present Government, or, if the phrase is preferred, the present Treasury Department, may be charged with those

arrearages which unavoidably accrued during the preparatory measures for bringing the resources of the public estate into activity. With as much reason might it be charged with the \$13,000,000 of interest, which accumulated under the imbecile system, the old Confederation, to which, if not to worse,—a dissolution of the Union!—the designs of the junto evidently point or tend.

When, proceeding upon grounds so loose and unjust, Mercator makes the extraordinary declaration, that the Secretary of the Treasury “has *produced* an *actual addition* to the public debt of more than one million and a half of dollars,” is it not palpable, that in the most malignant spirit of party he is endeavoring to destroy the public confidence in that officer, no matter how unfair the means, as one link in the chain of measures by which the domineering aims of his party are to be effected, or the cause of confusion promoted? Is it not clear that, in the language and conceptions of Mercator, to *provide for* a debt and to “*produce*” it, amount to the same thing?

To form a still better estimate of the spirit by which he is actuated, let there be a review of some leading facts.

Congress met under the present Government on the 1st of April, 1789. To put it in motion they had a vast and very arduous work before them. This was of course a primary object; a provision for the debt, a secondary one. It was natural then, that the first session should have been exhausted in *organizing* the Government, and that a systematic provision for the debt should be postponed, as in fact it was, to the

second session. A temporary and partial provision of revenue only was accordingly made by very moderate duties of impost, far short of an adequate fund for the support of Government and the payment of the interest on the debt, to take effect on the 1st of August, 1789; which was as early as the law could be promulgated throughout the Union, and the subordinate executive arrangements made for carrying it into execution.

It has been stated that the Treasury Department began to be in activity on the 13th of September. Congress adjourned on the 29th of that month, after having instructed the Secretary of the Treasury to report concerning the debt at *the ensuing session*. It is to be recollected that without an order of the House that officer can propose nothing.

It is evident that there was no responsibility on the side of that department for the accumulation of interest on the debt until, at earliest, the second session, which began on the 7th of January, 1790.

On Thursday, the 14th of January, the Secretary of the Treasury submitted to the House of Representatives, according to order, the plan of a provision for the public debt, comprehending an additional provision of revenue for the purpose of facing the interest. But it was not till the 4th of August that the principles of a provision for the debt were determined by law, nor till the 10th of the same month that a supplementary fund was established for paying the interest upon it; and from considerations of an obvious nature the commencement of this fund in operation was deferred to the 1st of January following.

Here, again, 't is manifest that there was no responsibility in the Treasury Department for the accumulation of interest up to the period from which it has been punctually paid—namely, the 1st of January, 1791,—because it was not in the power of that department to have accelerated a provision for it. Nor will any blame justly light upon Congress for the moderate delay which ensued. It was their duty to bestow much deliberation upon the subject. Much difference of opinion—much discussion—a considerable loss of time, were to be expected in relation to a subject so momentous, so perplexing, touching so differently so many chords of passion and interest.

The law providing for the debt having passed, the Secretary of the Treasury immediately seized the opportunity which was afforded by an unappropriated surplus of revenue to the end of the year 1790 to make an impression on the debt. He proposed that it should be applied to purchases of the debt at its market prices, which was agreed to by Congress, and has been carried into execution as far as circumstances have hitherto permitted.

This was certainly the best application that could have been made of the fund. It was equally the interest of the Government and of the public creditors:—of the Government, because it was a clear gain of all the difference between the sum of specie paid and the sum of debt redeemed, which is already \$514,891 69, and will be more when the remaining sum appropriated comes to be applied to further purchases; because it was a clear saving to the nation of all the difference in price which was paid by foreigners

in their purchases, in consequence of the competition of the Government in the market as a purchaser. It is well known to every well-informed man that the rapid appreciation of the debt was materially owing to that circumstance, and of course the saving to the nation by it has been *very considerable*. The measure in question was equally beneficial to the public creditors—because, if the fund applied to purchases had been apportioned among them in payment of interest, it would have been a mere pittance; but applied as it was, it gave a rapid spring to the whole value of the stock.

As it is therefore proved that the Treasury Department is chargeable with no delay with regard to a provision for the debt, occasioning an unnecessary accumulation of interest, in a question of merit respecting that department which MERCATOR has raised, it will follow that the department, on account of the operations which have been advised by it, has an unbalanced claim of merit with the community—

1st.—For all that has been or shall be saved by purchases of the public debt at the market prices.

2d.—For all that has been saved to the nation, for the more advanced prices given by foreigners in their purchases of the debt.

But there are other items of importance to be placed on the same side of the account.

1st.—The saving resulting from the reduced rate on the new loans for paying off the foreign debt.

2d.—The positive gain of 1,000,000 of dollars, by the institution of the Bank of the United States. The stock of the bank being at an advance of 50 per cent.,

it is clear that the Government, by having become a proprietor to the extent of 2,000,000 of dollars, has by this single operation made an actual net profit of 1,000,000 of dollars—that is, it can get three millions for what will have cost it only two.

I add nothing for any saving which has accrued from the particular modification of the domestic debt, for two reasons: one, because the subject being more complicated would require more illustration; and the other, because the plan adopted by the Legislature, though having the leading features of that proposed by the Treasury Department, differs from it in some material respects,—a strong refutation of the idea, so industriously inculcated, that the plans of that department are implicitly followed by the Legislature, and a decisive proof that they have had no more weight than they ought to have had—that is to say, than they were entitled to from their intrinsic reasonableness in the unbiassed and independent judgment of majorities in the two Houses of Congress. The result of what has been said is this: that provision was made for paying the interest of the debt as early as could reasonably have been expected; that no negligence having happened, the arrears of interest which have accumulated in the interval are properly a part of the debts of the former Government; and consequently, that the sums which appear to have been absorbed are so much of the debts of the *old* Government extinguished by the *new*.

Mercator brings as a proof that the public debt has increased and is increasing, what he terms “the present amount and *increasing* weight of the duties of

impost and excise." Let facts decide the soundness of this logic. In the last session of Congress, the only excise duty which exists was reduced upon an average fifteen per cent. The only addition which was then made to the imposts was for carrying on the Indian war, and by avoiding recourse to permanent loans for that purpose, to *avoid an increase of the debt*. How then can that which was done to avoid an increase of debt, *be a proof that it has increased?*

CIVIS.

II

PHILADELPHIA, September 11, 1792.

Little other notice of the futile reply of Mercator to Civis is necessary, than merely to put in a clear light the erroneousness of the standard which he has adopted for calculating the arrears of interest to the end of the year 1790.

He takes for his standard, the *present* annual interest on the *whole* amount of the public debt, as provided for *under the funding system*—that is, 1st. Upon the *former principal* of the foreign and domestic debt; 2d. Upon the *arrears of interest* of that principal, which on the 1st of January, 1791, and *not before*, became principal, by the provisions of the funding law; 3d. Upon the whole amount of the assumed debt—that is, \$21,500,000.

Now, the fact is, that the only arrears which can colorably be computed are those on the principal of the *foreign and domestic debt*, according to the terms of interest which they *actually bore* up to the 1st January, 1791. 1st. Because, in fact, the arrears of

interest on that principal *did not bear interest* till the 1st of January, 1791; and consequently *no interest whatever accrued upon them*. And 2d, because the Government of the United States took up the State debts as they stood at the end of the year 1791. If arrears of interest accumulated in the meantime, 't was the affair of the State governments, which were the debtors and alone responsible for a provision for it, not of the Government of the United States, which only became responsible by virtue of the assumption from the time that it took effect—that is, from the 1st of January, 1792, from which period the interest has been punctually paid. This is the true view of it, unless it can be shown that the Government of the United States is answerable for the neglects and omissions of the State governments. But what arrears may have really accumulated on this part of the debt is unknown, as it is understood there was in some States a provision for the interest.

Calculating then the arrears which did actually accrue—that is, on the principal and interest of the foreign and domestic debt, the former, according to the various rates which were stipulated upon it, and the latter at six per cent., the rate which it then bore, from the 1st of August, 1789, to the 1st of January, 1791, from which period interest has been paid, the amount is \$3,003,378 47—that is, \$1,032,980 72 less than the amount of the arrears for the same period by Mercator. This statement is not made from any secret sources of information, but from documents long since in the possession of the public. If Mercator has been inattentive to the means of

information he ought not to come forth the instructor of his fellow-citizens.

In a mere question of the *increase* and *decrease* of the public debt, if the arrears of interest which accrued on the assumed debt, up to the period from which the United States began to pay interest upon it, be placed on one side of the account, the saving or reduction, by the nature of the provision for it, ought to be placed on the other side, and the balance will be in favor of the United States.

Had Mercator stated an account with the Treasury Department on his own principle candidly applied—namely, that of setting off the surplus of revenue to the end of the year 1790 against the amount of the debt redeemed by purchasers and payments, the account would have stood thus:

<i>Debtor Side</i>	
To amount of surplus revenue at the end	
of the year 1790	\$1,338,875 84
<i>Credit Side</i>	
By the amount of the sum which appears	
by the statement of the Register of	
the Treasury to have been redeemed	
and paid off	\$1,845,217 42
By sum remaining to be applied	397,024 13
	\$2,242,241 55
Balance	\$903,365 71

being the amount of the public debt actually reduced beyond the amount of the funds remaining on hand

at the commencement of the operation of the funding system, in virtue of antecedent provision, and exclusive of reductions on the rates of interest.

As to the concluding remarks of Mercator, they depart from the question. 'T is no matter, in reference to that, whether the items which were mentioned are circumstances of temporary expedient or results of the soundest policy. They constitute positive *savings* and gains to the nation.

But it was not sufficient for Mercator to assert; he ought to have shown what sacrifice of justice or principle was involved in them. Not having done it, it is sufficient to observe that one good effect of the measures of finance which have been adopted by the present Government is at least unequivocal. *The public credit has been effectually restored.* This may be in the eyes of Mercator of little moment. There are certain theorists who hold both private and public credit to be pernicious. But their disciples are not numerous; at least among sober and enlightened men.

The actual benefits or actual evils of the measures connected with the Treasury Department, present and future, would be cheerfully submitted to the TEST OF EXPERIENCE. Happy would it be for the country, honorable for human nature, if the experiment were permitted to be fairly made. But the pains which are taken to misrepresent the tendency of those measures, to influence the public mind, to disturb the operations of the Government, are a decided proof, that those to whom they are attributable dare not trust the appeal to such a TEST. Convinced of this, they have combined all their forces,

and are making one desperate effort to gain an ascendancy in the public councils, by means of the ensuing election, in order to precipitate the laudable work of destroying what has been done.

CIVIS.

FACT

For the *National Gazette*

September 11, 1792.

Much declamation has been indulged against certain characters, who are charged with advocating the pernicious doctrine, that "public debts are public blessings," and with being friends to a perpetuation of the public debt of the country. Among these characters, if the Secretary of the Treasury has not been named, he has been pretty plainly alluded to. It is proper to examine what foundation there is, then, for those charges.

That officer, it is very certain, explicitly maintained, that the *funding* of the existing debt of the United States would render it a national blessing; and a man has only to travel through the United States with his eyes open, and to observe the invigoration of industry in every branch, to be convinced that the position is well founded.

But, whether right or wrong, it is quite a different thing from maintaining, as a general proposition, that a public debt is a public blessing; particular and temporary circumstances might render that advantageous at one time, which at another might be hurtful.

It is known that prior to the Revolution, a great

part of the circulation was carried on by paper money; that in consequence of the events of the Revolution, that resource was in a great measure destroyed, by being discredited, and that the same events had destroyed a large proportion of the moneyed and mercantile capital of the country, and of personal property generally. It was natural to think that the chasm created by these circumstances required to be supplied, and a just theory was sufficient to demonstrate, that a funded debt would answer the end. To infer that it would have such an effect, was no more to maintain the general doctrine of "public debts being public blessings," than the saying, that paper emissions, by the authority of Government, were useful in the early periods of the country, was the maintaining that they would be useful in all the future stages of its progress.

But to put the matter out of all doubt, and to show how destitute of candor the insinuations against the Secretary of the Treasury on this head have been, I have extracted, and shall insert here, some passages from some of his reports to the House of Representatives, by which it will be seen that his conduct as well as his language have been in uniform opposition to the doctrine charged upon him. The length of these reports, it is probable, has prevented many well-disposed persons from being acquainted with their contents, the presumption of which emboldens the calumniators of public characters and measures to make assertions, of the falsehood of which the mere perusal of official documents would convict them.

Extract from a report of the Secretary of the

Treasury on the subject of a provision for the public debt, presented the 14th of January, 1790. "Persuaded, as the Secretary is, that the proper funding of the *present* debt will render it a national blessing; yet he is *so far* from acceding to the position, in the latitude in which it is sometimes laid down, that 'public debts are public benefits,' a position *inviting to prodigality, and liable to dangerous abuse*, that he ardently wishes to see it incorporated, as a *fundamental maxim* in the *system of public credit* of the United States, that the *creation of debt should always be accompanied with the means of extinguishment*. This he regards as the *true secret for rendering public credit immortal*. And he presumes that it is difficult to conceive a situation in which there may not be an adherence to the maxim. At least he feels an *unfeigned solicitude* that this may be attempted by the United States, and that they may commence their measures for the establishment of credit with the observance of it."

Extracts from a report of the Secretary of the Treasury on manufactures, presented the 5th December, 1791.

After using several arguments to illustrate the operation of a funded debt as *capital*, the Secretary concludes thus: "There are respectable individuals who, from a *just aversion* to an *accumulation* of public debt, are unwilling to concede to it any kind of utility, who can discover no good to alleviate the ill with which they suppose it pregnant, who cannot be persuaded that it ought in any sense to be viewed as an increase of capital, lest it should be inferred

that the more debt the more capital, the greater the burthens the greater the blessings of the community."

"But it interests the public councils to estimate every object as it truly is; to appreciate how far the good in any measure is compensated by the ill, or the ill by the good; either of them is seldom unmixed."

"Neither *will it follow that an accumulation of debt is desirable*, because a certain degree of it operates as capital. There may be a plethora in the political, as in the natural body; there may be a *state of things in which any such artificial capital is unnecessary*. The debt, too, may be swelled to such a size as that the greatest part of it may cease to be useful as a capital, serving only to pamper the dissipation of idle and dissolute individuals; as that the sums required to pay the interest upon it may become oppressive, and beyond the means which a Government can employ, consistently with its tranquillity, to raise them; as that the resources of taxation, to face the debt, may have been strained too far to admit of extensions adequate to exigencies which regard the public safety."

"Where this critical point is, cannot be pronounced; but it is impossible to believe that there is not such a point."

"And as the vicissitudes of nations beget a perpetual tendency to the accumulation of debt, *there ought to be in every government a perpetual, anxious, and unceasing effort to reduce that which at any time exists, as fast as shall be practicable, consistently with integrity and good faith.*"

Extracts from a report of the Secretary of the Treasury relative to additional supplies for carrying

on the Indian war, presented the 16th of March, 1792.

“The result of mature reflection is, in the mind of the Secretary, a strong conviction that the last of the three expedients which have been mentioned (that was the raising of the sum required by taxes) is to be preferred to either of the other two.”

“Nothing can more interest the national credit and prosperity than a constant and systematic attention *to husband all the means previously possessed for extinguishing the present debt, and to avoid, as much as possible, the incurring any new debt.*”

“Necessity alone, therefore, can justify the application of any of the public property, other than the annual revenues, to the current service, or to the temporary and casual exigencies of the country, or the contracting of an additional debt, by loans, to provide for those exigencies.”

“Great emergencies might exist in which loans would be indispensable. But the occasions which will justify them must be truly of that description.”

“The present is not of such a nature. The sum to be provided is not of magnitude enough to furnish the plea of necessity.” “Taxes are never welcome to a community. They seldom fail to excite uneasy sensations more or less extensive; hence a too strong propensity in the Government of nations to anticipate and mortgage the resources of posterity, rather than encounter the inconveniences of a present increase of taxes.”

“But *this policy when not dictated by very peculiar circumstances, is of the worst kind.* Its obvious tend-

ency is, by enhancing the permanent burthens of the people, to produce lasting distress, and its natural issue is in national bankruptcy.”

“It will be happy if the councils of this country, sanctioned by the voice of an enlightened community, shall be able to pursue a different course.”

Here is example added to precept. In pursuit of a doctrine, the opposite of that which is charged upon him, the Secretary did not scruple to hazard the popularity of his administration with a class of citizens who, as a class, have been among the firmest friends of the Government, and the warmest approvers of the measures which have restored public credit. The circumstances, indeed, have been a weapon dexterously wielded against him by his enemies, who, in consequence of the increase of duties proposed, have represented him as the oppressor of trade. A certain description of men are for getting out of debt, yet are against all taxes for raising money to pay it off; they are among the foremost for carrying on war, and yet will have neither loans nor taxes. They are alike opposed to what creates debt and to what avoids it.

In the first case their meaning is not difficult to be divined; in the last it would puzzle any man, not endowed with the gift of second sight, to find it out, unless it be to quarrel with and pull down every man who will not consent to walk in their leading-strings; or to throw all things into confusion.

FACT.

PUBLIC DEBT

(Communicated to the House of Representatives, December 3, 1792.)

TREASURY DEPARTMENT, November 30, 1792.

In obedience to two resolutions of the House of Representatives: one of the 21st instant, directing the Secretary of the Treasury to report a plan for the redemption of so much of the public debt as, by the act entitled "An act making provision for the debt of the United States," the United States have reserved the right to redeem; the other of the 22^d instant, directing him to report the plan of a provision for the reimbursement of a loan, made of the Bank of the United States, pursuant to the eleventh section of the act entitled "An act to incorporate the subscribers to the Bank of the United States," the said Secretary respectfully submits the following report:

The expediency of taking measures for the regular redemption of the public debt, according to the right which has been reserved to the Government, being wisely predetermined by the resolution of the House of Representatives referring the subject to the Secretary, nothing remains for him but to endeavor to select and submit the most eligible means of providing for the execution of that important object.

With this view the first inquiry which naturally presents itself is, whether the existing revenues are, or are not, adequate to the purpose.

The estimates which accompany the report of the Secretary, of the 14th instant, will show that, during the continuance of the present Indian war, the appropriations for interest, and the demands for the cur-

rent service, are likely to exhaust the product of the existing revenues; though they afford a valuable surplus beyond the permanent objects of expenditure, which, it is hoped, may ere long be advantageously applied to accelerate the extinguishment of the debt.

In the meantime, however, and until the restoration of peace, the employment of that resource in this way must, of necessity, be suspended, and either the business of redemption must be deferred, or recourse must be had to other expedients.

But did no such temporary necessity for resorting to other expedients exist, the doing of it would still be recommended by weighty considerations. It would appear, in the abstract, advisable to leave the surplus of the present revenues free, to be applied to such casual exigencies as may, from time to time, occur; to occasional purchases of the debt, when not exhausted by such exigencies; to the payment of interest on any balances which may be found due to particular States, upon the general settlement of accounts; and finally to the payment of interest on the deferred part of the debt, when the period for such payment arrives. There is a reasonable prospect that, if not diverted, it will be found adequate to the two last important purposes.

Relinquishing, then, the idea of an immediate application of the present revenues to the object in view, it remains to examine what other modes are in the option of the Legislature.

Loans, from time to time, equal to the sums annually redeemable, and bottomed on the same revenues, which are now appropriated to pay the interest

upon those sums, offer themselves as one expedient which may be employed with a degree of advantage. As there is a probability of borrowing at a lower rate of interest, a material saving would result; and even this resource, if none better could be devised, ought not to be neglected.

But it is obvious that to rely upon this resource alone would be to do little towards the final exoneration of the nation. To stop at that point would consequently be neither provident nor satisfactory. The interests as well as the expectations of the Union require something more effectual.

The establishment of additional revenues is the remaining resource. This, if the business is to be undertaken in earnest, is unavoidable. And a full confidence may reasonably be entertained, that the community will see with satisfaction the employment of those means which alone can be effectual for accomplishing an end in itself so important and so much an object of general desire. It cannot fail to be universally felt that, if the end is to be attained, the necessary means must be employed.

It can only be expected that care be taken to choose such as are liable to fewest objections, and that, in the modifications of the business in other respects, due regard be had to the present and progressive circumstances of the country.

Assuming it as the basis of a plan of redemption, that additional revenues are to be provided, the further inquiry divides itself into the following branches:

1. Shall a revenue be immediately constituted,

equal to the full sum which may at present be redeemed, according to the terms of the contract?

2. Shall a revenue be constituted from year to year, equal only to the interest of the sum to be redeemed in each year, coupling with this operation an annual loan commensurate with such sum? Or,

3. Shall a revenue be constituted each year, so much exceeding the interest of the sum to be redeemed, as to be sufficient, within a short definite term of time, to discharge the principal itself; coupling with this operation also an annual loan equal to the sum to be annually redeemed, and appropriating the revenue created to its discharge, within the term which shall have been predetermined?

The first plan, besides being completely effectual, would be eventually most economical; but considering to what a magnitude the revenues of the United States have grown in a short period, it is not easy to pronounce how far the faculty of paying might not be strained by any sudden considerable augmentation, wheresoever immediately placed; while the rapid progress of the country in population and resource seems to afford a moral certainty that the necessary augmentation may be made with convenience, by successive steps, within a moderate term of time, and invites to temporary and partial suspensions, as capable of conciliating the reasonable accommodation of the community with the vigorous prosecution of the main design. For these and for other reasons which will readily occur, the course of providing immediately the entire sum to be redeemed is conceived *not* to be the most eligible.

The second plan, though much more efficacious than that of annual loans, bottomed on the revenues now appropriated for the payment of interest on the sums to be redeemed, does not appear to be sufficiently efficacious. The schedule A will show the effect of it to the 1st of January, 1802, when the deferred debt will become redeemable in the proportions stipulated. Supposing the investment of the interest which is each year liberated, together with that which has been and will be released by purchases pursuant to provisions heretofore made, in the purchase of 6 per cent. stock; a sum of principal, equal to 2,043,837 dollars and 7 cents, would be sunk, and a clear annuity, equal to 459,212 dollars and 82 cents, would be created, towards further redemptions; but the fund then necessary for the future progressive redemption of the debt, according to the right reserved, would be 1,176,616 dollars and 44 cents, exceeding by 667,403 dollars and 62 cents the amount of the redeeming fund. Something more effectual than this is certainly desirable, and appears to be practicable.

The last of the three plans best accords with the most accurate view which the Secretary has been able to take of the public interest.

In its application it is of material consequence to endeavor to accomplish these two points: 1st. The complete discharge of the sums annually redeemable within the period prefixed, and the reimbursement, within the same period, of all auxiliary loans which may have been made for that purpose. 2dly. The constituting, by the expiration of that period, a clear

annual fund, competent to the future redemption of the debt, to the extent of the right reserved.

The period to which it is conceived the plan ought to refer, is the 1st day of January, 1802; because *then* the first payment on account of the principal of the deferred debt may rightfully be made.

In conformity to these ideas, the following plan is most respectfully submitted; premising, that the sum redeemable for the first year of the six per cent. stock, bearing a present interest, is computed at 550,000 dollars.

Let an annual fund be constituted, during the present session, equal to 103,199 dollars and 6 cents, to begin to accrue from the 1st of January, 1793. Let the sum of 550,000 dollars be borrowed upon the credit of this annuity, reimbursable within five years—that is, by the 1st of January, 1799. The sum borrowed to be applied, on the 1st of January, 1794, to the first payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1799, and will, thenceforth, be free for any further application.

The sum redeemable the second year—that is, on the 1st of January, 1795, is computed at 583,000 dollars.

Let an annual fund be constituted, during the second session after the present, equal to 109,391 dollars and 60 cents, to begin to accrue from the 1st of January, 1794. Let the sum of 583,000 dollars be borrowed upon the credit of this annuity, reimbursable within five years—that is, by 1st of January,

1800. The sum borrowed to be applied, on the first of January, 1795, to the second payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1800, and will be, thenceforth, free for any further application.

The sum redeemable the third year—that is, on the 1st of January, 1796, is computed at 617,980 dollars.

Let an annual fund be constituted, during the third session after the present, equal to 115,955 dollars and 17 cents, to begin to accrue from the 1st of January, 1795. Let the sum of 617,980 dollars be borrowed upon the credit of this annuity, reimbursable within five years—that is, by the 1st of January, 1801. The sum borrowed to be applied on the 1st of January, 1796, to the third payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1801.

The sum redeemable the fourth year—that is, on the 1st of January, 1797, is computed at 655,058 dollars and 80 cents.

Let an annual fund be constituted, during the fourth session after the present, equal to 122,912 dollars and 48 cents, to begin to accrue from the 1st of January, 1796. Let the sum of 655,058 dollars and 80 cents be borrowed upon the credit of this annuity, reimbursable within five years—that is, by the 1st of January, 1802. The sum borrowed to be applied on the 1st of January, 1797, to the fourth payment on account of the principal of the debt.

The proposed annuity will reimburse the sum

borrowed, with interest, by the 1st of January, 1802.

The sum redeemable the fifth year—that is, on the 1st of January, 1798, is computed at 694,362 dollars and 33 cents.

Let an annual fund be constituted, during the fifth session after the present, equal to 152,743 dollars and 12 cents, to begin to accrue from the 1st of January, 1797. Let the sum of 694,362 dollars and 33 cents be borrowed upon the credit of this annuity, reimbursable within four years—that is, by the 1st of January, 1802. The sum borrowed to be applied on the 1st of January, 1798, to the fifth payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1802.

The sum redeemable the sixth year—that is, on the 1st of January, 1799, is computed at 736,024 dollars and 7 cents.

Let an annual fund be constituted, during the sixth session after the present, equal to 197,680 dollars and 20 cents, to begin to accrue from the 1st of January, 1798. Let the sum of 736,024 dollars and 7 cents be borrowed upon the credit of this annuity, reimbursable within three years—that is, by the 1st of January, 1802. The sum borrowed to be applied on the 1st of January, 1799, to the sixth payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1802.

The sum redeemable the seventh year—that is, on

the 1st of January, 1800, is computed at 780,185 dollars and 52 cents.

Let an annual fund be constituted, during the seventh session after the present, equal to 272,848 dollars and 38 cents, to begin to accrue from the 1st of January, 1799. Let the sum of 780,185 dollars and 52 cents be borrowed upon the credit of this annuity, reimbursable within two years—that is, by the 1st of January, 1802. The sum borrowed to be applied on the 1st of January, 1800, to the seventh payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1802.

The sum redeemable the eighth year—that is, on the 1st of January, 1801, is computed at 826,996 dollars and 65 cents.

Let an annual fund be constituted, during the eighth session after the present, equal to 423,583 dollars and 54 cents, to begin to accrue from the 1st of January, 1800. Let the sum of 826,996 dollars and 65 cents be borrowed upon the credit of this annuity, reimbursable within one year—that is, on the 1st of January, 1802. The sum borrowed to be applied on the 1st of January, 1801, to the eighth payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, on the 1st of January, 1802.

The sum redeemable the ninth year—that is, on the 1st of January, 1802, is computed at 1,126,616 dollars and 44 cents.

The then existing means for the discharge of this sum, arising from the operation of the plan, will be:

1st. The amount of the annuity constituted the third year, which will have been liberated by reimbursement of the third loan. 2d. The arrears of interest not previously appropriated, and which are computed at 200,000 dollars.

There will consequently be a deficiency, this year, of 810,661 dollars and 27 cents, which will require to be supplied by a temporary loan, to be reimbursed out of the surplus of the fund which, on the 1st of January, 1802, will exist for future redemptions, and which surplus will be sufficient to reimburse this temporary loan in about thirteen years and a half.

It may be proper to remark, that this deficiency upon one year is suffered to exist, to avoid an unnecessary augmentation of revenue materially beyond the sum permanently requisite. No inconvenience ensues, because this temporary deficiency is made up by the surplus of the permanent fund within the period mentioned. And that fund, from the 1st of January, 1802, is adequate to all future redemptions, in the full proportion permitted by the contract.

The table in the schedule B, will show, in one view, the principles and operation of this plan.

The schedule C will exhibit the means of constituting the several annuities proposed to be established. From it will be seen, that the proposed annuities are to be composed, partly of taxes, to be successively laid at the respective periods of creating them, partly of the surplus dividend to be expected on the stock belonging to the Government in the Bank of the United States, beyond the interest to be paid on ac-

count of it, and partly of the funds heretofore pledged for the payment of interest, which will have been liberated upon so much of the debt as will have been extinguished.

The respective amounts of the taxes to be severally laid will be:

In the first year	\$ 43,199 06
In the second year	109,391 60
In the third year	115,955 17
In the fourth year	102,912 48
In the fifth year	102,743 12
In the sixth year	107,680 20
In the seventh year	109,649 32
	<hr/>
Making together	\$691,530 95

The sum which will have been redeemed *prior* to the 1st day of January, 1802, will be \$5,443,607 37. The sum redeemable on the 1st of January, 1802, will be \$1,126,616 44; and the fund which will, thenceforth, exist for the purpose of future redemption (as is particularly shown by the schedule D), will be \$1,-210,744 34, exceeding the sum strictly necessary by \$84,127 90—a fund which, including the interest, from year to year liberated, will, as already intimated, be completely adequate to the final redemption of the whole amount of the six per cent. stock (as well the deferred as that bearing a present interest), according to the right which has been reserved for that purpose.

In the meantime, a further impression will be made upon the debt, by the investment of the residue of the funds heretofore established, in the purchase of it; and it is hoped, that the restoration of peace with the

Indians will enable the application of the surplus of the existing revenues, together with the proceeds of the ceded lands in our Western territory, to the same object. These, whenever they can be brought into action, will be important aids, materially accelerating the ultimate redemption of the entire debt. The employment of these resources, when it can be done, by increasing the interest fund, will proportionably lessen the necessity of using the resource of taxation, for creating the proposed annuities—if the Government shall judge it advisable to avail itself of the substitute which may accrue from that circumstance.

Having now given a general view of the plan which has appeared, upon the whole, the most eligible, it is necessary, in the next place, to present to the consideration of the House the requisite funds for commencing the execution of it. These will embrace a provision for the first annuity only, that alone requiring, by the plan, immediate provision. With regard to a provision for the subsequent annuities, which is proposed to be successive, the Secretary will content himself with this general observation, that he discerns no intrinsic difficulty in making provision for them, as fast as shall be necessary, with due convenience to the people, and consistently with the idea of abstaining from taxing lands and buildings (with the stock and implements of farms), reserving them as a resource for those great emergencies which call for a full exertion of all the contributive faculties of a country.

The following means, for constituting the first annuity, are respectfully submitted, viz.:

Annual surplus of the dividend on the stock of Government in the Bank of the United States, beyond the interest to be paid out of the said dividend, estimated at \$60,000.

Tax on horses, kept or used for the purpose of riding, or of drawing any coach, chariot, phæton, chaise, chair, sulky, or other carriage for *conveyance of persons*, excepting and exempting all horses which are *usually* and *chiefly* employed for the purposes of husbandry, or in drawing wagons, wains, drays, carts, or other carriages, for the transportation of produce, goods, merchandise, and commodities, or in carrying burthens in the course of the trade or occupation of the persons to whom they respectively belong, and the horses of persons in the military service of the United States, viz.:

For every horse, not above excepted and exempted, at the rate of one dollar per annum where only one is used or kept by the same person, with an addition of fifty cents per annum per horse, where more than one and not more than two horses are kept or used by the same person; with an addition of one dollar per annum per horse, where more than two and not more than four are kept or used by the same person; and, with an addition of one dollar and a half dollar per horse, per annum, where more than four are kept and used by the same person. Provided, That this addition shall not be made, in respect to horses usually employed in public stages, for the conveyance of passengers.

This progressive increase of rates on the higher numbers has reference to the presumption of greater

wealth, which arises from the possession of such higher numbers.

The product of this tax will, probably, be about equal to the residue of the proposed annuity, which is \$43,199 06. How near the truth this estimate may prove, experiment alone can, in so untried a case, decide. An aid to this fund may be derived from the surplus dividend on the bank stock, for the half year ending the last of December next, which, it is presumed, will be not less than \$20,000. Should a deficiency appear, upon trial, it can be supplied by a future provision.

Proper regulations for the collection of this tax will, it is believed, be found not difficult, if the tax itself shall be deemed eligible. Its simplicity has been a considerable recommendation of it. Qualified as it is, it is not likely to fall on any but such who can afford to pay it. The exemption from the tax, in regard to horses which are appropriated to the purposes of *husbandry*, or of any trade or occupation, or to the transportation of commodities, seems to obviate all reasonable objection.

If, however, there should appear to the Legislature reasons for preferring a tax on carriages for pleasure, which, it may be observed, will operate on nearly the same description of persons, the sum required may, it is believed, be produced from the following arrangements of rates, viz.: Upon every coach, the annual sum of four dollars. Upon every chariot, the annual sum of three dollars. Upon every other carriage *for the conveyance of persons*, having four wheels, the annual sum of two dollars; and, upon

every chair, sulky, or other carriage *for the conveyance of persons*, having less than four wheels, the annual sum of one dollar.

The collection of this tax will be as simple and easy, and perhaps more certain, than that which has been primarily submitted.

With regard to the second object referred to the Secretary, namely, the plan of a provision for the reimbursement of the loan made of the Bank of the United States, pursuant to the eleventh section of the act by which it is incorporated, the following is respectfully submitted, to wit: That power be given by law to borrow the sum due to be applied to that reimbursement: and that so much of the dividend on the stock of the Government, in the bank, as may be necessary, be appropriated for paying the interest of the sum to be borrowed.

From this operation it is obvious that a saving to the Government will result, equal to the difference between the interest which will be payable on the new loan, and that which is payable on the sum now due to the bank. If the proposed loan can be effected at the rate of those last made in Holland, the net saving to the Government may be computed at the annual sum of \$35,000; which saving, whatever it may be, is contemplated as part of the means for constituting the proposed annuities.

The benefit of this arrangement will be accelerated if provision be made for the application of the proceeds of any loans, heretofore obtained, to the payment suggested on the condition of replacing the sums, which may be so applied, out of the proceeds of

the loan or loans which shall be made pursuant to the power above proposed to be given.

It will also conduce to the general end in view if the Legislature shall think proper to authorize the investment of the funds, destined for purchases of the debt, in purchases of six-per-cent. stock, at the market price, though above par. The comparative prices of the several kinds of stock have been, and frequently may be, such as to render it more profitable to make investments in the six per cents, than in any other species of stock.

All which is humbly submitted.

ALEXANDER HAMILTON,
Secretary of the Treasury.

LOANS

IN THE HOUSE OF REPRESENTATIVES
OF THE UNITED STATES,
WEDNESDAY, January 23, 1793.

Resolved, That the President of the United States be requested to cause to be laid before this House copies of the authorities under which loans have been negotiated, pursuant to the acts of the 4th and 12th of August, 1790, together with copies of the authorities directing the application of the moneys borrowed.

Resolved, That the President of the United States be requested to cause this House to be furnished with the names of the persons by whom and to whom the respective payments of the French debt have been made in France, pursuant to the act for that purpose,

specifying the dates of the respective drafts upon the commissioners in Holland, and the dates of the respective payments of the debt. A similar statement is requested respecting the debts to Spain and Holland.

Resolved, That the Secretary of the Treasury be directed to lay before this House an account exhibiting half monthly the balances between the United States and the Bank of the United States, including the several branch banks, from the commencement of those institutions to the end of the year 1792.

Resolved, That the Secretary of the Treasury be directed to lay before this House an account of all moneys which may have come into the sinking fund, from the commencement of that institution to the present time, specifying the particular fund from which they have accrued, and exhibiting, half yearly, the sums uninvested, and where deposited.

Resolved, That the Secretary of the Treasury be directed to report to this House the balance of all unapplied revenues at the end of the year 1792, specifying whether in money or bonds, and noting where the money is deposited: That he also make report of all unapplied moneys which may have been obtained by the several loans authorized by law, and where such moneys are now deposited.¹

¹ These resolutions, following certain others offered a month before, were introduced to discredit and break down Hamilton. They were instigated by Jefferson, with the advice and assistance of Madison, and were brought forward in the House by their tool, Giles. This and the following reports, which answered everything completely, were prepared with incredible rapidity, and effectually crushed the assailants.

REPORT OF THE SECRETARY OF THE TREASURY IN PURSUANCE OF
THE FOREGOING RESOLUTIONS

TREASURY DEPARTMENT, February 4, 1793.

SIR:

I have lost no time in preparing, as far as has been practicable, consistently with the course of facts, the several statements required by the resolutions of the House of Representatives of the 23d of last month; and I have concluded to add to them such further statements as appeared to me necessary to convey fully the information which is understood to be the object of those resolutions. It was my first intention to submit these statements collectively, with such explanatory remarks as the occasion might demand; but finding, on experiment, from the extent and variety of the matter involved in the resolutions, that more time will be requisite for a full development of it than I had anticipated, considerations of weight in my mind have determined me to present the different parts of the subject successively. Among other advantages, incident to this course of proceeding, will be that of having it in my power to give a more accurate and mature view of the entire subject, without too great a dereliction of the current business of the Department. In executing the task I propose to myself, I shall rely on the indulgence of the House to a latitude of observation corresponding with the peculiar circumstances of the case.

The resolutions to which I am to answer were not moved without a pretty copious display of the reasons on which they were founded. These reasons are before the public, through the channel of the press. They are of a nature to excite attention; to beget

alarm; to inspire doubts. Deductions of a very extraordinary complexion may, without forcing the sense, be drawn from them.

I feel it incumbent upon me to meet the suggestions which have been thrown out, with decision and explicitness. And while I hope I shall let fall nothing inconsistent with that cordial and unqualified respect which I feel for the House of Representatives; while I acquiesce in the sufficiency of the motives that induced on their part the giving a prompt and free course to the investigation proposed, I cannot but resolve to treat the subject with a freedom which is due to truth, and to the consciousness of a pure zeal for the public interest.

I begin with the last of the four resolutions, because it is that which seeks information relating to the most delicate and important of the suggestions that have been hazarded.

Here, however, I have to regret the utter impossibility of a strict compliance with the terms of the resolution. The practicability of such a compliance would suppose nothing less than that, since the last day of December, 1792, all the accounts of all the collectors of the customs and other officers of the revenue throughout the whole extent of the United States could be digested, made up, and forwarded to the Treasury; could be examined there, settled, and carried into the public books, under their proper heads; in a word, that all the accounts of the revenues, receipts, and expenditures of this extensive country would have passed through a complete exhibition, examination,

and adjustment within the short period of twenty-three days.

It was made (as I presume from the result) satisfactorily to appear to a committee of the House of Representatives, who were charged during the last session with framing a direction to the Treasury for bringing forward an annual account of receipts and expenditures, that the course of public business would not admit of the rendering of such an account in less than nine months after the expiration of each year; in conformity to which idea their report was formed and an order of the House established.

I need do nothing more to evince the impracticability of an exact compliance with the resolution in question, than to observe that it is even more comprehensive (though with less detail) than the order of the House to which I have alluded.

To evince, nevertheless, my readiness to do all in my power toward fulfilling the views of the House and throwing light upon the transactions of the Department, I shall now offer to their inspection sundry statements,¹ marked A, AB, B, C, D, E, F, which contain, as far as is at this time possible, the information desired, and with sufficient certainty and accuracy to afford satisfaction on the points of inquiry involved in the resolution.

The statement A shows in abstract the whole of the receipts into, and expenditures from, the Treasury, commencing with the first of January, and ending with the last of December, 1792, corresponding with

¹ For these statements in full, see *State Papers*, "Finance," vol. i., p. 188, *et seq.*
VOL. III.—5.

the accounts of the Treasurer. These accounts have been regularly settled up to the end of September, and copies have been laid before the two Houses of Congress. The account for the quarter terminating with the year has not yet passed through the forms of settlement, but is under examination, and will, no doubt, be settled as it stands; the manner of conducting the business, and the usual care and accuracy of the officer concerned, leaving very little room to apprehend misstatement or error. A copy of this account is herewith submitted, in the schedule marked C.

This statement takes up the balance of the general account of receipts and expenditures to the end of the year 1791, as reported to the House of Representatives within the first week of the present session, and continuing it down to the end of 1792, shows a balance then in the Treasury of seven hundred and eighty-three thousand four hundred and forty-four dollars and fifty-one cents.

The statement B is a more comprehensive document. It is a general account of INCOME and expenditure. It shows not merely the actual *receipts* of money into the Treasury, but the whole amount of the national revenues, from the commencement of the present Government, to the conclusion of the year 1792, as well *outstanding* as collected; the proceeds of domestic loans; the whole amount of the sums which have been drawn into the United States, on account of the foreign loans; and all other moneys, from whatever source, which have accrued within the period embraced by the statement.

These items form the debit side of the account,

amounting to seventeen millions eight hundred and seventy-nine thousand eight hundred and twenty-five dollars and thirty-three cents.

The credit side consists of two items: 1. The whole amount of the actual expenditures to the end of the year 1791, as stated in the general account of receipts and expenditures before referred to. 2. The whole amount of the actual expenditures during the year 1792, as specified generally in the statement A, and particularly in the several quarterly accounts of the Treasurer, amounting to twelve millions seven hundred and sixty-five thousand one hundred and twenty-eight dollars and eighty-three cents.

The balance of this account of income and expenditure is consequently five millions one hundred and fourteen thousand six hundred and ninety-six dollars and fifty cents; which corresponds with the excess of the public income (including the proceeds of loans, foreign and domestic) beyond the actual expenditure, or, more properly speaking, *disbursement*, to the end of the year 1792. This of course is exclusive of those parts of the proceeds of foreign loans which have been left in Europe, to be applied there; the amount, application, and balance of which are exhibited, as far as they are yet known at the Treasury, in the statement No. 1, of my late report on foreign loans.

This balance, as noted in the statement B, is composed of the following particulars:

1. Cash in the Treasury, per statement A . \$783,444 51
2. Cash in the Bank of the United States,
and the offices of discount and deposit
of New York and Baltimore,

not yet passed to the account of the Treasurer, per statement AB . . .	605,883 08
3. Proceeds of Amsterdam bills remaining in deposit in the Bank of North America, including the sum of one hundred and fifty-six thousand five hundred and ninety-five dollars and fifty-six cents, advanced by the bank, without interest, which is credited in the general account of receipts and expenditures, statement A . . .	177,998 80
4. Proceeds of Amsterdam bills sold, but not yet received	614,593 02
5. Cash in hands of collectors of customs, per abstract D	151,851 25
6. Bonds unpaid at the end of the year one thousand seven hundred and ninety-two, on account of the duties on imports and tonnage, and falling due between that time and May, one thousand seven hundred and ninety-four, per abstract E	2,442,069 15
7. Uncollected residue of duties on spirits distilled within the United States, per abstract F	341,057 19
	<hr/>
Making, together	\$5,116,897 00

This aggregate somewhat exceeds the balance of the account, but in a case where estimates must necessarily supply the deficiency of ascertained results, differences of this nature are of course. It is at the same time satisfactory to observe that the estimates which have been heretofore communicated

are proved, by the official documents already received, to have been essentially correct.

It will no doubt readily occur to the House, that a very small part of the excess which has been stated is a real surplus of income. There remain to be satisfied numerous objects of expenditure, charged upon the fund by the appropriations which have been made, that cannot fail ultimately to exhaust it, probably within four or five hundred thousand dollars, which will be embraced in the appropriations for the service of the year one thousand seven hundred and ninety-three. A further explanation on this point is reserved for future communication.

A due comprehension of the statements now presented must obviate every idea of a balance unaccounted for, in whatever sense the allegation may have been intended to be made.

If there was before any obscurity on the subject, it was certainly not the fault of this Department. Till the last resolutions, no call has been made upon it which rendered it proper to exhibit a general view of the public moneys and funds, or to show the amount and situation of such as were unapplied. Particular calls for particular objects were made, which, as I conceive, were complied with; but they were not comprehensive enough to embrace a disclosure of that nature.

It could not therefore with propriety have been alleged that there was a balance unaccounted for; to infer it from documents which contained only a part of the necessary information was not justifiable. Nor could it otherwise happen, than that conclusions

wholly erroneous would be the consequences of taking such imperfect data for guides.

It may be of use, by way of elucidation, to point out some of the most palpable features of the error which has been entertained.

The following items are stated as the basis of the supposed deficiency:

Residue of the proceeds of the foreign bills supposed to be unapplied (after deducting the sums furnished for St. Domingo, and the amount of the debt to the foreign officers)	\$1,668,190
Surplus of sinking fund, meaning, I presume, that part of the surplus of the revenue to the end of the year 1790, which had not been applied in purchases	400,000
Surplus of revenue of the year 1792, as reported	277,385
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	\$2,345,575
Deduct, in bank, meaning, I presume, the balance of the Treasurer's cash account	790,642
	<hr/>
Balance, not accounted for	\$1,554,933

It appears, in the first place, to have been overlooked that, in statement No. 3 of my late report concerning foreign loans, mention is made that on the 3d of January there remained *to be received* of the proceeds of the foreign bills six hundred and thirty-two thousand one hundred and thirty-two dollars and two cents; consequently, that sum could not be considered as in the Treasury, and ought to be deducted from the supposed deficiency.

Among the official papers, which it is intimated were consulted, was an original account, rendered by the Bank of the United States, of the sales of Amsterdam bills, showing a sum of six hundred and five thousand eight hundred and eighty-three dollars and eight cents, as having been received by the bank and two of its offices of discount and deposit, for the proceeds of those bills. Had the document been understood, it would have been known that this sum was in bank over and above the balance of the Treasurer's cash account; and this also would have served to account for a large part of the supposed deficiency—namely, six hundred and five thousand eight hundred and eighty-three dollars and eight cents. The course of this transaction will be hereafter explained.

But, among the misconceptions which have obtained, what relates to the surplus of revenue of the year 1792, is not the least striking. The *laws* inform (and consequently no information on that point from this Department could have been necessary) that credits are allowed upon the duties on imports, of four, six, nine, twelve months, and, in some cases, of two years. Reason dictates, that a *surplus*, in such case, must be considered as postponed in the collection or receipt, till all appropriations upon the fund have been first satisfied. The account of receipts and expenditures to the end of 1791, in possession of the House, shows that, at that time, no less a sum than one million eight hundred and twenty-eight thousand two hundred and eighty-nine dollars and twenty-eight cents of the antecedent duties were outstanding in bonds. How, then, could it have

happened that the surplus of 1792 was sought for in the Treasury *at the very instant of the expiration of the year?* I forbear to attempt to trace the source of a mistake so extraordinary!

Let me, however, add, that, of the surplus in question, one hundred and seventy-two thousand five hundred and eighty-four dollars and eighty-two cents are not payable till April and May, 1794, as will be seen by the abstract E.

Thus I have not only furnished a just and affirmative view of the real situation of the public account, but have likewise shown, I trust in a conspicuous manner, fallacies enough in the statement, from which the inference of an unaccounted-for balance is drawn, to evince that it is one tissue of error. In this I might have gone still further, there being scarcely a step of the whole process which is not liable to the imputation of misapprehension. But I wish not unnecessarily to weary the patience of the House.

Another circumstance, to which importance has been given, and which was noticed in connection with the suggestion last discussed, is a disagreement between a memorandum in the Treasurer's bank-book, and the statement reported by me of the amount of bills drawn at the Treasury upon the foreign fund. A disagreement no doubt exists, and to the extent of five millions seven hundred and sixty thousand one hundred and thirty-eight florins or guilders.

But the following circumstances contain the solution of this disquieting appearance.

There will be found in the statement A two several credits, each for two millions of dollars, as for mon-

eys received into the Treasury, with corresponding debits of equal sums, as for moneys paid out of the Treasury.

But neither the one nor the other did in reality take place. The whole is a mere operation, to accomplish the purposes of the eleventh section of the "act to incorporate the subscribers to the Bank of the United States," without an inconvenient and unnecessary displacement of funds.

That section authorizes a subscription to the stock of the bank, on account of the Government, not exceeding in amount two millions of dollars, and provides for the payment of it out of the moneys which should be borrowed by virtue of either of the acts of the 4th and 12th of August, 1790; the first making provision for the public debt, the last for reducing it; enjoining, at the same time, that a loan should be made of the bank to an equal amount, to replace the moneys which were to be applied to the payment of the subscription.

It is evident that nothing could have been more useless (at the same time that it would have been attended with obvious disadvantages to the Government), than *actually* to draw from Europe, out of the moneys borrowed there, the sum necessary for the payment of the subscription to the bank, and again to remit, out of the loan which was to be obtained of the bank, a sufficient sum to replace such moneys, or such part of them as may have been destined for the foreign object. Loss upon exchange, in consequence of overstocking the market with bills; loss in interest, by the delays incident to the operation; and which

would necessarily have suspended the useful employment of the funds for a considerable time: these are some of the disadvantages to the Government. To the bank alone could any benefit have accrued; which would have been in proportion to the delay in restoring or applying the fund to its primitive destination. Such an operation, therefore, could only have been justified by an indisposition on the part of the bank to facilitate the principal object, without the intervention of actual payment.

But no such disposition existed. On this, as on every other occasion, a temper liberal toward the Government has characterized the conduct of the directors of that institution.

It was accordingly proposed by me, and agreed to by them, that the object to be accomplished should be carried into effect by a merely formal arrangement. In this, however, it was necessary to consult the injunctions of law, and the principles of the constitution of the Treasury Department.

These points then were to be effected: a payment of the subscription money, to vest the Government with the property of the stock; possession of the means of paying it, which were to be derived from the foreign fund, and of course were first to be in the Treasury before payment could be made; the replacing what should be taken from that fund by a loan of the bank.

The following plan for these purposes was devised and executed by previous concert:

The Treasurer drew bills upon our commissioners in Amsterdam for the sums requisite to complete the

payment on account of the subscription. These bills were purchased by the bank, and warrants in favor of the Treasurer upon the bank served, to place the proceeds in the Treasury. Warrants afterward issued upon the Treasurer, in favor of the bank, for the amount of the subscription money, which was receipted for on the part of the bank as paid. Other warrants then issued in favor of the Treasurer upon the bank, for equal sums, as upon account of a loan to the Government, which warrants were satisfied by a re-delivery to the Treasurer of the bills that had been drawn upon the commissioners. In the last place, warrants were drawn upon the Treasurer to replace the moneys supposed by the arrangement to be drawn from the foreign fund, which perfected the operation. But, from the detail which has been given, it will be seen that, *in fact*, no moneys were either withdrawn from, or returned to, that fund. The bills were cancelled, annexed to the warrants, and are lodged in the Treasury as vouchers of the transaction.

These bills were for two separate sums, each two millions four hundred and seventy-five thousand guilders, equal to a million of dollars; the payment having been divided into two parts, upon certain equitable considerations, relative to the dividend of the first half year.

This transaction explains four millions nine hundred and fifty thousand guilders of the sum which forms the disagreement between the memorandum in the Treasurer's bank-book and the statement reported by me.

The residue is thus explained: The sum of one

million two hundred and thirty-seven thousand five hundred guilders, directed to be drawn for, on the thirtieth of November, was directed to be comprised in one or more bills, as the bank should desire. It was at first placed in one bill, but this bill was afterward returned, with a request that it might be converted into smaller sums. The bill returned was cancelled, and, in lieu of it, there had been furnished, prior to the 1st of January, of the present year, nine hundred and thirty-four thousand five hundred guilders; the balance, three hundred and three thousand, then remaining to be furnished. The sum of nine hundred and thirty-four thousand five hundred guilders, consequently, appears twice in the memorandum.

These two sums, of four millions five hundred and ninety thousand, and nine hundred and thirty-four thousand guilders, exceed the difference in question, by one hundred and twenty-four thousand three hundred and sixty-two guilders.

The Treasurer informs me, that there are two bills not included in the memorandum: one for one hundred and twenty-three thousand seven hundred and fifty, and the other for six hundred and twelve guilders; which make up the above-mentioned excess. The former of these two bills was furnished to the Secretary of State for the purpose contemplated by the third section of the act of the last session, entitled "An act making certain appropriations therein specified."

Is it not truly matter of regret that so formal an explanation, on such a point, should have been made

requisite? Could no personal inquiry, of either of the officers concerned, have superseded the necessity of publicly calling the attention of the House of Representatives to an appearance, in truth, so little significant? Was it seriously supposable that there could be any real difficulty in explaining that appearance, when the very disclosure of it proceeded from a voluntary act of the head of this Department?

With perfect respect,

I have the honor to be, sir,

Your most obedient and most humble servant,

ALEXANDER HAMILTON,

Secretary of the Treasury.

The Hon. Jonathan Trumbull, Esq.,

Speaker of the House of Representatives.

P. S.—Another statement of income and expenditure having been made, which presents the subject under another aspect, but agreeing in the result with the statement B is marked B a.¹

LOANS

Communicated to the Senate, February 6, 1793.

TREASURY DEPARTMENT, February 5, 1793.

SIR:

In pursuance of the first part of the order of the Senate, of the 23d of January past, I have the honor to send, herewith, sundry statements, marked A, AB, B, Ba, D, E, F,² and I beg the permission of the

¹ For these schedules see *State Papers*, "Finance," vol. i., p. 196.

² For these statements, see *State Papers*, "Finance," vol. i., pp. 187-190; 195-200.

Senate to add the copy of a letter dated yesterday, which served to transmit duplicates of the same documents to the House of Representatives, and which contains some explanations of them, a repetition of which, here, will be, thereby, rendered unnecessary. The document C, referred to in that letter, was also sent to the House of Representatives, but being of considerable length a duplicate is not yet ready, and I did not think it advisable to detain the other papers till it was ready.

The documents, now transmitted, will answer the whole of the inquiry contained in the first part of the order above referred to, except what regards a distribution of the expenditures, under each head of appropriation, which is in preparation, and will be forwarded as soon as it can be ready.

The situation in which I am placed renders further delay absolutely necessary to the fulfilment of the second part of the order.

There is a point in my letter of the 16th of January to the Senate, concerning which some explanation is requisite. I stated, as one motive to the joint negotiation of the loans, under both acts, "an intimation from our bankers in Holland, that a distinction might prove an embarrassment, being a novelty, the reason of which would not be obvious to the money-lenders." This was done from memory, without recurrence to documents, and in a degree of hurry occasioned by my anxiety for the speedy passing of the appropriation bill, and upon a revision, proves to be not accurate. The mistake arose in the following manner. My original idea was, to maintain a separation be-

tween the two acts. This will appear from my letter of the 28th of August, 1790, to our bankers, in which I express a desire that they would endeavor to place part of the first loan upon one act, and another part upon the other act. But they did not carry this idea into execution, for the reason assigned in their answer, now before the Senate; which is, that the subdivision proposed would, under the circumstances of the case, tend to excite speculations and doubts among the money-lenders.

But, prior to the receipt of their answer, I had made further inquiry, and had reflected more on the subject. The result of my inquiry was that the money-lenders, having been accustomed to lend on the general credit of the Government borrowing, with a sort of general pledge of its revenues and resources, the attempt to bottom a loan upon any particular law might, as a novelty, occasion some hesitation and embarrassment among them; especially as they are known to be a description of men much influenced by habit and precedent; and the conclusions, from more full reflection, were that the distinguishing of the loans with reference to each act might not only embarrass the business in the first stages of negotiation, but might interfere with an application of the proceeds of the loans in the most convenient and beneficial manner, according to circumstances.

On these considerations I abandoned my original intention, and in my first instruction to Mr. Short, was silent on the point.

These different positions of the subject in the mind, at different times, and what actually took

place, with regard to the first loan, produced some confusion in the recollection of facts, and led me to assign as a cause what had been only a collateral circumstance, and to ascribe to the bankers intimations, or rather information, which I had received from other quarters.

I submit this explanation of the matter to the candor of the Senate, and have the honor to be with perfect respect,

Sir, your most obedient servant,

ALEXANDER HAMILTON.

The Vice-President of the United States and
President of the Senate.

Communicated to the Senate, February 6, 1793.

TREASURY DEPARTMENT, February 5, 1793.

SIR:

By order of the President of the United States, I have the honor to transmit herewith:

1. Copies of a power given by him to the Secretary of the Treasury for the time being, dated the 28th of August, 1790, for the negotiation of the loans authorized by the laws of the 4th and 12th of August, 1790, and of certain instructions relative thereto, dated on the same day.

2. Copies of an authority, founded upon the power of the President, from me to William Short, Esquire, dated the 1st of September, 1790, and of sundry letters from me to the said William Short, of dates from the 29th of May, 1790, to the 31st of December, 1792,

inclusively, relating to the negotiation and application of the above-mentioned loans.

3. Originals of sundry letters from William Short to me, under dates from the 2d of December, 1790, to the 2d of November, 1792, inclusively, relating to the same subject.

4. Copy of an authority from me to Messrs. Wilhem and John Willink, Nicholaas and J. Van Staphorst and Hubbard, bankers of the United States at Amsterdam, dated the 28th of August, 1790, relating to the first of the loans made under the above-mentioned acts, and copies of sundry letters to the said bankers, of dates from the 28th of August, 1790, to the 31st of December, 1792, inclusively.

5. Originals of sundry letters from the said bankers to me, of dates from the 25th of January, 1790, to the 5th of November, 1792.

6. Copies of sundry letters of dates from the 18th of June to the 24th of September, 1792, inclusively, between G. Morris and W. Short, Esquires, having relation to the above subjects.

The general power from the President to the Secretary of the Treasury, of the 28th of August, 1790, and the communications from William Short, Esquire, who has been the only commissioner, would, it is presumed, have fulfilled the terms of the resolution of the Senate of the 23d of last month, and are transmitted, pursuant to the request contained in that resolution.

But the President has been pleased to direct the transmission of the other documents also, in the supposition that they will serve to throw light upon the general subject of that resolution.

With perfect respect, I have the honor to be sir,
yours, etc.

ALEXANDER HAMILTON,
Secretary of the Treasury.

The Vice-President of the United States and
President of the Senate.

[NOTE.—Of the papers referred to in this report, none are now to be found, except those published with the Secretary's *second* report, of the 13th of February, 1793, which follows.]

LOANS

Communicated to the House of Representatives, February 13, 1793.

SIR:

The next most important article of inquiry involved in the resolutions of the House of Representatives of the 23d of January last, and in the observations which have been made respecting the conduct of this Department, relates to the loans negotiated under the acts of the 4th and 12th of August, one thousand seven hundred and ninety.

The papers which have been transmitted to the House by order of the President disclose the following particulars:

1. That the immediate superintendence of the business of the loans was confided to the Department of the Treasury, being naturally connected with it. This trust, besides the original instructions for regulating the execution of it, which have been communicated, was of course subject to such directions, from time to time, as the President should think fit to

give, or as occasions should require. A considerable latitude of discretion, nevertheless, from the very nature of the case, attended it, so as justly to leave, on the head of this Department, a complete responsibility in all instances where special exceptions do not appear.

2. That the first loan which was obtained was undertaken and completed by the agency of Wilhem and Jan Willink, and Nicholaas and Jacob Van Staphorst and Hubbard, who, both under the former and present Government, have been, and are, the bankers of the United States, at Amsterdam.

3. That, with the single exception of the first loan, William Short, Esq., then Chargé des Affaires at the court of France, now Resident Minister at the Hague, was constituted the sole agent of this Department for carrying into effect the powers confided to it; with this qualification only, that, if any negotiation with a prince or state, to whom any part of the debt to be discharged by the loans was due, should be requisite, the same was to be carried on through the person who, in capacity of Minister, Chargé des Affaires, or otherwise, then was, or thereafter might be, charged with transacting the affairs of the United States with such prince or state.

4. That all payments, which have been made out of the proceeds of the loans, have been made by the immediate and special order of Mr. Short, except those upon the bills of the Treasurer for the moneys drawn to this country, and those to the money-lenders in Holland, which were made in course by our bankers, at the periods they respectively became due.

This consequently embraces all the payments to France; the very last of which, though agreed for by Mr. Morris, in consequence of his having been employed for a special purpose by Mr. Short, was not, and could not, be completed, but by the same *immediate* and *special* direction of Mr. Short.

It moreover appears, from the same papers, and more fully from the correspondence at large, now before the Senate, that, except in the particular instance which has been just stated, with regard to Mr. Morris, there has been no other agency in the whole business than that of Mr. Short, and of the bankers at Amsterdam and Antwerp, whom he necessarily employed as instruments in the negotiations with the money-lenders, and in the receipt and disbursement of the moneys borrowed. These, as already mentioned, were, at Amsterdam, the two houses of Wilhem and Jan Willink, and of Nicholaas and Jacob Van Staphorst and Hubbard; at Antwerp, a Mr. G. De Wolf was the banker.

It may not be without its uses to add, that the moneys proceeding from the loans have constantly remained in the hands of the respective bankers, till they have been paid over to the creditors; namely, the French treasury or their bankers, the money-lenders or their representatives, the holders of the bills drawn from this country by the Treasurer. Neither Mr. Short nor Mr. Morris has ever had possession of a single guilder. The latter, indeed, has never had power over *one*, excepting merely a sum of 105,000 guilders, by letter of mine, dated the 13th of September last, placed at his disposal for paying, *at*

Paris, according to stipulation, the interest on the debt due to foreign officers. The fact is, and it is so demonstrated by the correspondence already referred to, that I never wrote a line to Mr. Morris on the subject of the loans or their proceeds, but in reference to the case just mentioned, of the interest payable to foreign officers, in respect to which, local situation governed.

One more circumstance only is necessary to be noticed in this place, with a view to the elucidation intended. It is this: that the last payment, though originating prior to the change in the political position of France, of the 10th of August last, not having been consummated till the 6th of September following, fell, of course, under the disposition of those then in possession of the power of the nation.

It could not but have been unexpected to me, that exception should be taken to the report lately made by me on the subject of foreign loans, for the omission of details which I did not, at the time, and do not yet conceive to have been called for, by the terms of the resolutions upon which it was founded. The request addressed to the President, by those resolutions, was, that he would cause to be laid before the House a particular account of the *sums borrowed, under his authority*, by the United States; the *terms* on which each loan was obtained; the *applications* which had been made *of the moneys*, agreeably to appropriations; the balances, if any, which remained unapplied; specifying, also, at what *times interest commenced* on the several sums obtained, and at what *times it was stopped* by the several payments made.

It was not natural to imagine that these expressions were designed to comprehend a specification of the *precise authorities* under which the loans were negotiated, of the *names* of the *persons* by whom they were negotiated, of the particular *place* or *places* where the balances unexpended of the sums that had been drawn for to the United States were *deposited*. Still less natural was it for me to anticipate surmises, which could give to such particulars the shadow of importance. But, as animadversions have attended the omission of those details, I ought to regard it as an admonition to me to be more full and precise in my present communication—a motive which co-operates with my desire to throw all possible light upon the subject.

The first general circumstance which requires to be noticed and explained, after the particulars that have been communicated, is this: that all the loans which have been hitherto obtained have been made under the authority of both acts, without particular reference to either.

The idea originally entertained was to conduct them on a different plan, founding each loan upon one or the other of the acts, as will be seen by my letter of the 28th of August, 1790, to our bankers at Amsterdam; at the same time that it will appear, from the same letter, that the separation did not appear to me a matter of consequence, and that I anticipated the possibility of a difficulty in adhering to it in the particular case. That difficulty proved, in the opinion of the bankers, to be of sufficient moment to render the arrangement contemplated, under the circum-

stances of the case, unadvisable, as they inform me in their answer to the above-mentioned letter.

But, prior to the receipt of that answer, further inquiry and reflection had determined me to abandon my original idea, as likely to produce embarrassment and inconvenience, both in the negotiation of the loans and in the application of their proceeds. It was accordingly concluded to let the loans proceed indiscriminately, upon both acts.

These loans were to have reference to two purposes: first, the reimbursement of the foreign debt; second, the purchase of the domestic debt at its market price.

There were weighty reasons for carrying on both these operations concurrently. The arrears to France had been a considerable time accumulating. It was, in every sense, proper that a reimbursement of them should begin without delay, and desirable, for obvious reasons, that it should go on without any very considerable chasms or intermissions. This manner of proceeding could not but have the fairest chance of being the most satisfactory and convenient to France; unless, indeed, the business were to have proceeded upon the principle of an entire postponement of the domestic object to that of the reimbursement.

But very cogent reasons rendered this course not the most eligible; the early commencement of purchases of the debt was a matter of real and great importance.

It was important in two relations: as it regarded the advantages to the Government, from redeeming a

portion of the debt at low prices; and still more, as it regarded the savings to the country from raising the price of stock on foreign purchasers; the beneficial influence upon the credit of the nation, abroad and at home, to be expected from a quick appreciation of the public obligations; the benefit to the public creditors in general, and to the most meritorious classes of them in particular, which would result from the same cause; all which objects were suggested from the Treasury, as motives to the provision respecting purchases, and are evidently contemplated in the preamble of the act which makes that provision.

Exclusive of the other advantages which have been cited, and which are of a nature truly precious and important, that of preventing foreigners from acquiring the property of our citizens, at a great undervalue, is too obvious not to be estimated, as it ought to be, at first sight. It cannot require argument to show how great an evil it was, that foreigners should be able to acquire, with nine or ten, that for which the country would ultimately have to pay them twenty, with full interest in the interval; nor how much it merited the attention of the Government to prevent or lessen so serious an evil.

But the influence which the purchases by the Government may have had upon this event may not be equally obvious. It is, however, not difficult to be traced. Price naturally keeps pace with competition and demand; whatever increases the latter necessarily tends to an augmentation of the former. Merely, then, as another purchaser, by adding to the

competition and demand, the purchases of the Government were calculated to influence a rise of price. But they had an effect more than proportioned to their real extent. Imagination has much to do in all such questions, and in scarcely any thing so much as in what relates to public funds. Experience proves that it is here exerted with uncommon effect. The appearance of the Government, as a purchaser, has not failed to excite the expectation of a greater demand than was real, because the extent of the resources to be employed might be very great, and was unknown; which, by stimulating the zeal of those who wanted to buy, lest the price should rise suddenly and considerably upon them, and by encouraging those who wanted to sell, under the hope of a better price, to hold back the commodity, has, in both ways, generally contributed to give a spring to the market. Prices once raised, when founded on intrinsic value, tend to maintain themselves; because those who have given them are, for the most part, interested in keeping them up; and every new impulse which they receive serves to carry them rapidly to their just level.

Those who have been most attentive to the operation of the public purchases will have the least doubt that they had a material agency in accelerating the appreciation of the public stock.

An inquiry naturally arises here: Were the moneys which were drawn from Europe, on account of the foreign loans, the instrument of the purchases to which these beneficial effects are ascribed?

I answer, that these purchases are to be attributed

to the instrumentality of that fund; that, had it not been for this resource, they could not have been made at the early periods when most of them were made. The course of the transaction will be fully, and with more propriety, explained in another place.

An attention to both objects—to the reimbursements to France, and to the purchases of the debt, rendered expedient a submission even of the first loan. Considerations of the moment seconded those of a general nature, to induce an immediate payment to that country. The loan had been undertaken without previous authority from hence, with a view to such payment; this was known, and a correspondent expectation excited. The immediate situation of the French finances rendered a payment, at the particular juncture, more than ordinarily interesting. In such a state of things, there could be no hesitation about applying a large part of the loan to that object. Another part of it was, of necessity, applied to the payment of the sums that were falling due on the Dutch loans; and it is presumed that the reasons which have been assigned will appear to have been sufficiently powerful to have dictated the drawing of a part of it to the United States.

Accordingly, a million and a half of the three millions borrowed were appropriated to France; something more than eight hundred thousand guilders were drawn for here, and the remainder of the loan was left to be disbursed in Holland.

It shall not be concealed, though I am aware that the acknowledgment may be a subject of criticism, that the conduct which was pursued, both with re-

gard to this and to the succeeding loan, was, in some degree, influenced by a collateral consideration. The Government had but just adopted a plan for the restoration of public credit. The periodical payment of interest was to commence on the 1st of April, 1791. A considerable part of the revenue, out of which the moneys were to arise, was only to begin to accrue on the 1st of January preceding. This revenue was liable to credits of four, six, and twelve months.

How far its eventual product would answer expectation; how far the punctuality of payments could be relied upon, were points unascertained, and which required, to their ascertainment, much more experience than had been obtained. In such a situation it was not only natural, but necessary, for an administrator of the finances to doubt; and, doubting, it was his duty to call to the aid of the public credit every auxiliary which it was in his power to command. He was bound to reflect, that a failure in any stipulated payment would be fatal to the dawning credit of the country; to the reputation of the Government, just beginning to rise. That a wound inflicted upon either, at so early a stage, under all the circumstances of opposition to the Constitution, which had existed in the community, would have been deeply felt, and might either not have admitted of a cure at all, or not till after a length of time, and a series of mischiefs; that it could not but be an important service rendered to the country to ward off so great a misfortune by the temporary use of any extraordinary resource which might be at hand, till time was given for more effectual provision.

If, in the course of such reflections, a doubt had occurred about the strict regularity of what was contemplated as a possible resort, a mind sufficiently alive to the public interest, and sufficiently firm in the pursuit of it, would have dismissed that doubt, as an obstacle, suggested by a pusillanimous caution, to the exercise of those higher motives which ought ever to govern a man invested with a great public trust. It would have occurred that there was reasonable ground to rely, that the necessity of the case, and the magnitude of the occasion, would insure a justification, and that, if the contrary should happen, there remained still the consolation of having sacrificed personal interest and tranquillity, no matter to what extent, to an important public interest, and of having avoided the humiliation which would have been justly due to an opposite and to a feeble conduct.

The disposition which was resolved upon with regard to the first loan involved, necessarily, a decision of the point, that the loans might be placed on the joint foundation of both acts. That loan having been undertaken, as already mentioned, without previous authority, and, consequently, without a particular eye to either act, it was probable that it would be found too late to make an apportionment of one part of the sum borrowed to one act, of another part to the other act. In that case, the distributive application of the fund to the different objects was to be relinquished, or the possibility was to be admitted of the loan being left to stand upon the authority of both acts. The same disposition of the first loan will also illustrate the convenience and expediency of the plan

which was finally adopted—that is, of placing the loans on the basis of both acts.

The idea of a concurrent execution of both the objects to which the loans were destined could not, conveniently, have been pursued upon the plan of a separation of the loans, which, to be effectual, would include the strict application of the proceeds of each to the purposes of the particular act upon which it was founded.

Amsterdam was naturally looked to as the great scene of the intended loans. There, as everywhere else, there is but a certain quantity of money floating in the market, from time to time, beyond the necessary demands of trade and industry, seeking for employment in loans. This quantity, of course, varies at different periods, from a variety of causes. Of the quantity at any time afloat, but a certain portion can be commanded by any one borrowing power, owing to the competition of other borrowers, who have, each, their connections, through their bankers, with different sets of undertakers and money-lenders. Nor is it always that considerable loans can be had, at any rate. There are certain seasons only, when they are practicable.

To have brought two loans upon the market at one time, as an opportunity of borrowing offered, which must have been the case in order to make concurrent provision for both the objects in question, if the principle of a separation of the loans had been adopted, would have been to exhibit to the money-lenders a very unusual appearance. With men known to be much influenced by precedent and habit, such an

appearance could not have failed to prove a source of speculation and conjecture, and might have led to a confused idea that the wants of the United States were excessive—a supposition by no means calculated to promote their credit. It would, moreover, have been a departure from that simplicity of procedure which, where numbers are concerned, is always of moment to a right conception of the business to be accomplished, and ought not to be abandoned but for reasons of real utility and weight.

To have instituted the loans successively, founding each upon one or the other of the acts, would have had a tendency to occasion longer intervals between the payments to France than was desirable. The intervention of a loan for the purpose of purchases would have created, of course, a very considerable chasm. It may be objected, that such chasms did happen on the plan which was pursued. This is true, in two instances; but the most material of the two proceeded from casualties foreign to the plan itself, which are detailed in the correspondence more than once alluded to.

It is possible, too, that a separation of the loans might have rendered it less easy to take advantage of a state of the market favorable to their extension at a particular juncture. The loan to be brought on the market might relate to the purchase of the debt. The moment might be favorable to a more considerable loan than was within the limits prescribed for that object, and the opportunity might slip before a second could be instituted. In this business, moments are often of importance,

and are to be embraced with promptitude and dexterity.

Thus, it appears that in different ways the negotiation of the loans might be embarrassed by their separation.

But the most obvious, if not the most serious, of the inconveniences which would have attended it, respects the application of the sums borrowed. This could not, then, have been moulded as the interest or policy of the Government might dictate. A loan for the purchase of the debt might have been made, under prospects promising a ready and beneficial investment of it; but, before the investment was made, a change of the market might render it ineligible, involving the alternative, either of a disadvantageous investment, or of leaving, perhaps, a large sum of money a long time unemployed. Such a state of things might have produced, to the banks, an advantage, and, to the Government, a loss, of magnitude sufficient to give color to a surmise that the public interest had been sacrificed to the profit of those institutions. The contrary course has essentially avoided that evil, which, in this and in other instances, would have been incident, in a far greater degree, to the modes of proceeding, contrasted with those that have been pursued, than has, in reality, attended them.

Or, political considerations might have rendered it advisable to transfer the application of the fund from one object to the other.

Of this, the case of St. Domingo presents an example. It might have happened, on the plan of

separate loans, that there was no fund in hand but for the purchase of the debt. Then, on the principle of that plan, there would have been no fund in the disposition of the Executive, applicable to the other object, which would have embarrassed the performance of a duty toward a friendly Power, and, in a way which included the positive advantage to the country, of paying, directly, a part of its foreign debt in its own productions.

Such were the embarrassments avoided, and such the conveniences secured, by the plan of making the loans indiscriminately, upon the authority of both acts.

In the opposite plan, I can discern no counterbalancing advantage nor convenience.

Consequently, if both are equally legal, there can be no doubt which of them ought to have been preferred.

If there be any want of legality in the plan which has been pursued, I was not, at the time, and am not yet, sensible of it.

I know of no rule which renders it illegal in an agent, having, from the same principal, two authorities to borrow money, whether for one, or different purposes, to unite the loans he may make, upon the foundation of both authorities, provided the terms of them be consistent with both or either of his commissions. If the purposes are different, it will be incumbent upon him to take care that the application of the moneys borrowed makes the proper separation, and, doing this, he will have fulfilled his trust. To test this position, it seems only necessary

to ask: Whether the principal, in such case, would not be fully bound to the lenders?

In reflecting, originally, upon the regularity of the proceeding meditated, there was but one source of hesitation—the difference in the funds upon which the loans were to rest. But the following reasoning satisfied the scruple. The pledging of particular funds is for the security of the lenders. If they are willing to waive the special security, by lending on the general credit of the Government, or to dispense with the preference of one fund to another, where two are pledged, by lending indiscriminately on the credit of both, the one or the other circumstance must be alike indifferent to the Government. The authority will have been well executed, to the extent necessary for public purposes, and if anything remains unexecuted, it will be in enlargement, not in abridgment, of the public rights. It is, however, presumed, that the practical construction, in the present case, will be, that the two funds pledged will constitute an aggregate for the joint security of the moneys borrowed upon both acts.

The second general circumstance respecting the foreign loans, negotiated under the acts of the 4th and 12th of August, which requires attention, relates to the terms on which they have been obtained. These, it appears, have been represented as neither honorable nor advantageous.

The following facts, witnessed by the correspondence before the Senate, more than once referred to, and well known to all who have had opportunities of information, demonstrate that the terms of

those loans have been both honorable and advantageous.

1. There is not one of them, which originated under these acts, that was not effected upon conditions equally favorable with those attending the loans of the contemporary borrowing Powers of the most tried resources and best-established credit, and more favorable than were obtained by some Powers of great respectability.

2. The United States took a lead in the market, in regard to the subsequent reductions of interest, having had either earlier or more complete success than any other borrowing Power.

3. From a rate of five-per-cent. interest, and $4\frac{1}{2}$ -per-cent. charges, which marked the level of the market when they began their loans, they, in the course of a single year, brought down the terms to four-per-cent. interest, and five-per-cent. charges; that is, from an interest on the net sum received (including an indemnification for charges) of 5.5012, something more than $5\frac{1}{2}$ per cent., to an interest on the like sum of 4.4951, something less than $4\frac{1}{2}$ per cent.

When this state of things is applied to a Government only in the third year of its existence, and to a country which had so recently emerged from a total derangement of its finances, it would seem impossible to deny that the issue is not only honorable but flattering—unless, indeed, it can be denied, that a sound and vigorous state of credit is honorable to a nation.

I forbear a comparison between the loans of the present and of the former Government of this

country, because an immense disparity of circumstances would render it an improper one,—further than to take notice of a very great error which has been on some occasions advanced. It has been alleged, to disparage the management under the present, that the loans of the former Government, in a situation comparatively very disadvantageous, have been effected upon equal terms; and, in proof of this, an appeal has been made to the loan of 2,000,000 of guilders, at four per cent., which is that of the 9th of March, 1784.

Nothing can manifest more clearly than this the very precipitate and superficial views with which suggestions on important public subjects are sometimes made. The last four-per-cent. loan obtained under the existing laws, including charges, is a real $4\frac{1}{2}$ -per-cent. loan, or, more exactly, a 4.4951-per-cent. loan. The four-per-cent. loan of March, 1784, is a real 6.6468-per-cent. loan. The difference, which exceeds two per cent., arises principally from extra premiums and gratifications which were allowed upon this loan, and which are unknown to the other.

Much praise is, no doubt, due to the exertions which effected the loans under the former Government. A superiority of merit shall readily be conceded to them from the circumstances under which they were made, and their signal utility in the Revolution. But it is not necessary to their eulogium to affirm that they were made upon equal terms with those of the loans lately obtained, or to deny the goodness of the terms of the latter. Truth will not justify the one or the other.

The facts which have been stated prove that the terms of the loans are advantageous as well as honorable. They are comparatively advantageous, because they are as moderate as other Powers, in the best credit, have allowed; and they are absolutely advantageous, because the highest *real*, not *nominal*, rate of interest which has been given does not exceed 5.5012—a fraction more than 5½ per cent.; while the lowest *real* rate is 4.4951—a fraction less than 4½ per cent.

If the question, whether advantageous or not, be tested by the purposes for which the loans have been made, the conclusion is equally in their favor. The payments on account of the foreign debt were an indispensable obligation. Unless it can be shown that they might have been derived from another and more advantageous source, it will follow that it was the interest of the Government to avail itself of the resource which has been employed, because it was its duty to discharge its obligations.

It is sometimes urged that foreign loans, for whatever purpose, are pernicious, because they serve to drain the country of its specie for the payment of interest, and for the final reimbursement of principal; that it would be preferable for that reason to procure loans at home, even at a higher rate of interest.

To this several answers may be given, some of a special, others of a general nature.

In reference to the reimbursement of the foreign debt it may be observed, that, as a debt had already been incurred abroad, upon which interest was payable, the contracting of new loans there for the

reimbursement of that debt would leave us, as to the demand for the exportation of our specie, just where we originally stood.

Moreover, if the money could have been borrowed at home for that reimbursement, the remittance of it would have been ruinous to the country. The mere necessity of remitting could not alone have increased the foreign demand for our commodities, so as to deduce from an extra exportation of them the requisite means of payment; and, if our specie was to perform the office, the country would speedily have been exhausted to a degree inconsistent with the support of its commerce and industry. The quantity of coin in the United States has never been considerable enough for such an operation.

But this very state of things would have rendered the procuring of the money, from domestic resources, impracticable. These, it may be safely affirmed, are too limited for extensive loans, of any considerable degree of permanency.

In the last place: The expedient of domestic loans would not prevent the evil which is desired to be prevented. Foreigners would either, in the first instance, bring their moneys to subscribe them to the loans, or they would afterwards purchase the stock arising from them; and, in either case, they would equally draw away the money of the country on account of their interest and principal. The only consequence of giving a disproportionate rate of interest for domestic loans would be, that our specie would be carried away so much the faster.

Experience having shown that nations sometimes

pay more regard to their external than to their internal credit, this consideration co-operates with reasons of convenience, to induce moneyed men abroad to be content with a lower rate of interest, stipulated to be paid in their own country, than if the place of payment be in another country, making even a greater difference than is an equivalent for the expense and risk of obtaining remittances.

The clear inference from these observations is, that, with regard to the reimbursement of the foreign debt, no other expedient than that of foreign loans was practicable or eligible.

The utility of that part of the loans which has reference to the purchase of the debt has already been explained in certain views. So far as their agency has been, hitherto, concerned in that operation, it is a sufficient demonstration of the advantage of the measure to state, that the sum invested in purchases, up to the period of the last report to Congress, has redeemed what is equal to an annuity of 6.15 per cent., including, also, the advantage of sinking a capital more than fifty per cent. greater than the sum expended.

A valuable profit will arise from the investment of the sums on hand, either in a payment to the bank or in the purchase of stock. The liberation of an annuity of six per cent. can be secured, while, upon a great part of the fund which is to effect it, no more than $4\frac{1}{2}$ per cent. is payable, and less than $5\frac{1}{2}$ upon the other part. The mean of these rates being five per cent., an annual saving of one per cent. may be effected, which, upon 2,000,000 of dollars, interest at

five per cent., is equal to a capital or gross sum of 400,000 dollars—an item certainly of no inconsiderable consequence.

Against the advantages which are claimed in favor of the loans, it is natural to place the loss of interest incident to the delays which have attended their application to the purposes for which they were obtained. This leads to an examination of the cases of delay, their causes, and the circumstances, if any, which counterbalance them.

There are three instances of material delay: one respecting the first loan, another the second loan, and a third a part of the two last loans.

The first loan, it will be seen, was not applied till a considerable time after its commencement. It has been already intimated, that it was undertaken without previous authority from this country. The motives to the measure are detailed in a letter from our bankers, of the 25th of January, 1790, a copy of which accompanies the communications herewith made by order of the President. As regard to those motives led to an acceptance of the loan. Nor could it have been deemed an unfortunate circumstance, that such an auxiliary to the operations of the Treasury had been previously prepared.

The laws authorizing the loans passed the 4th and 12th of August. As early as the 28th of that month, the acceptance above mentioned was communicated, and the application of 1,500,000 florins, in a payment to France, directed. So far, no time was lost, more than could not have been avoided.

But the bills for the sum to be brought here were

not drawn till some months after. This proceeded from an unwillingness to risk the public credit by drawing before there was a certainty of funds to answer the drafts. It was not impossible that the great delay which had attended the passing of the law for borrowing, might have led the bankers to come to some arrangement with the money-lenders for surrendering the moneys paid in, and terminating the loan. Independent of this source of apprehension, they had expressed themselves, in their letter communicating the step they had taken, to this effect: "To spare the United States all possible advance of interest, while the money shall remain unappropriated, we shall issue the recipisses at the option of the buyers to take them *so late as they please*, on the expectation the three millions would be placed in a few months." This, though it announced an expectation that the moneys would be paid in, in a few months, did not render the event certain. And as the bankers appeared, from that precaution, to have adverted to the idea of saving the United States an advance of interest, it was supposable that they might have found means still further to procrastinate the payments, or a considerable part of them, till they had received a confirmation of the loan. This policy would have been the more natural, as they risked the loss of interest themselves, if the transaction should not have been finally ratified.

Under such circumstances, I thought it most prudent to defer the drafts till advice was received of the actual progress of the loans. There was no room to hesitate between the loss of a small sum in interest

and the danger of committing the public credit by a premature operation.

The second case of delay relates to the second loan. It was occasioned by a determination to suspend the orders for its application till information was received of its having been contracted for.

One motive to this determination has been already intimated—namely, the yet untried and immature state of our fiscal arrangements. The general reasoning on this head was strengthened by an occurrence altogether unlooked for, which disclosed itself on the 23d of August, 1790, eleven days after the rising of Congress—an occurrence which they had not contemplated in their pecuniary dispositions. I allude to the commencement of an Indian war, which was announced in a letter from Governor St. Clair, dated on the above-mentioned day, the progressive extent and consequences of which could, of course, not be foreseen. Under such circumstances, I judged it for the public interest and safety to hold the resource which the prospect of a loan presented under the power of the Treasury till advice should be received of the actual institution of the loan, with intention then to dispose of it as should appear advisable under a better-matured view of our pecuniary situation and prospects.

Hence the delay which attended the application of the second loan; the first, in fact, that originated subsequent to the laws for borrowing. But after advice had been received of its having been set on foot, no time was lost in converting it with due despatch to its proper uses. There was only not an

anticipation of its application. As early as May 24th, 1791, I wrote a letter to Mr. Short (a copy of which is in the possession of the House), empowering him to apply the proceeds of all future loans, as they should accrue, in payments to France, except as to such sums as therein were, or afterward should be, *previously* and *specially* reserved. This arrangement was calculated to obviate the inconvenience of leaving the proceeds of the loans for any considerable time unemployed. At the period of making it, and not sooner, the public prospects appeared to me sufficiently unfolded to render a general and permanent disposition free from hazard. This instruction preceded, in due season, all the loans subsequent to that of March, 1791.

Whatever delay, therefore, may have attended succeeding investments for paying the French debt, is not attributable to this Department; and I think it will not appear that any has been incurred in respect to the sums which were destined for the public service here. In judging of this point, it will be proper to observe that a latitude of six months for making their payments has been reserved to the money-lenders, though with liberty to make them earlier. It was, however, necessary for the Treasury to regulate its bills according to the possible delay, lest they should not meet adequate funds. The general policy adopted was to let them fall upon the rear of each loan, this giving a freer course for early payments to France, and best conciliating a certainty of funds for answering the bills with as little double interest as possible.

It will appear that, notwithstanding the arrangement which was made, a considerable time intervened between the two last payments to France, while there were funds in hand waiting for employment. It may be expected that the causes of this procrastination, though, as I have said, not imputable to this Department, should be unfolded to the House. Particular circumstances, however, induce me to confine myself to stating generally that the delay proceeded, in the first place, from an expectation given to Mr. Short, and kept up, from time to time, by the French Minister of Marine, that a plan would be adopted, to which a decree of the National Assembly was requisite, for converting a large sum into supplies for St. Domingo; which Mr. Short concluded justly must come out of the foreign fund, and consequently suspended its application in Europe. In the second place, from a desire to settle, previously to further payments, a definite rule, by which the moneys paid should be liquidated and credited to the United States.

Both the one and the other appear to have been procrastinated from period to period, by the disordered state of French affairs, and to have finally issued contrary to expectation. It would be an unnecessary commitment of my opinion to declare how far the delay appears to me to have been justified by the causes; but, being led by the occasion to take notice of it, I think it improper to send it abroad, liable, perhaps, to misconstruction, without observing that the inducements appear to me to have been weighty; that the delays naturally grew out of the circumstances; and that I am entirely persuaded of

the goodness of the motives which governed. The correspondence before the Senate contains the particulars of the transaction.

Having pointed out the instances of material delay which happened, and the causes of them, it remains to state what circumstances there are to counter-balance the loss on that account.

These circumstances are of two kinds:

1. Gain by exchange in the sale of the bills drawn by the Treasury, and upon the higher rate of interest on the credits which were given for those bills, than was payable on the fund upon which they were drawn.

2. Gain by exchange on the payments to France.

According to my calculation, founded on the best information extant, the real par of metals, between the United States and Amsterdam, makes a current guilder equal to $35 \frac{9}{100}$ ninetieths of a dollar. The lowest rate which has been obtained for the bills has been $36 \frac{4}{11}$ ninetieths, with an allowance of sixty days' credit, without interest. Making a deduction for the interest, the bills were still sold above the true par. In some instances, they have been sold as high as forty cents and seven mills per guilder, with interest for the whole term of the credit given.

The rate of interest, for the credits allowed upon the bills, was six per cent.; the mean interest paid upon the fund, five per cent.; producing, consequently, a gain of one per cent.

With regard to the payments to France, if the current rate of exchange between Paris and Amsterdam, at the moment of each remittance or payment

were to govern, a large profit would result to the United States; but certain equitable considerations will produce deductions, which will greatly lessen this advantage; yet, making a liberal allowance for them, there is ground to calculate that a saving may be made in this particular, more than sufficient to indemnify for the loss of interest. Hence any positive advantage which will have been otherwise gained will probably be undiminished by that circumstance.

I proceed, in the next place, to state the views which prevailed, respecting the sums that have been from time to time drawn for, the purposes they have hitherto answered, and the further advantages to be expected from the measure.

The direct object of all the sums drawn for, prior to July, 1792, was the purchase of the debt. A collateral consideration, which operated in the first stages of drawing, has also been mentioned. It has likewise been stated that the early purchases of the debt are to be ascribed to the instrumentality of the fund derived from the loans. This idea shall now be explained.

Two mistakes appear to have influenced the impressions which have been entertained in relation, directly or indirectly, to this subject. First, it seems to have been all along forgotten that a considerable part of the duties is always outstanding, on account of the credits which are given; whence the assertion that the sinking fund has continually overflowed from domestic resources. Second, it seems to have been taken for granted that the proceeds of the loans

have remained apart, distinct from the mass of the money in the Treasury; while, in truth, the course of the business has been to turn them over to the Treasurer by warrants as they have been received, so as to form a part of the aggregate, from time to time, appearing in his hands and in his accounts. The banks have been the agents employed for selling the bills. Sometimes warrants on account have issued upon them for the sums accruing from the sales; at other times the warrants have been deferred till the whole proceeds of any parcel have been received, and the accounts of the bank settled at the Treasury; as the state of the Treasury has happened to render the one or the other more convenient.

The banks of North America and New York were the agents for the sale of all the bills which were sold prior to April, 1792, amounting to 1,006,526 dollars and 36 cents. Of this sum, 361,391 dollars and 34 cents were passed over to the Treasury in 1791; 327,136 dollars and 22 cents in March, 1792; and 140,000 dollars in June following; the residue having remained, as heretofore stated, in deposit with the Bank of North America, upon a special consideration. This is exclusive of certain bills furnished for the use of the Department of State, amounting to 78,766 dollars and 67 cents.

The remainder of the bills which have been sold, beginning in April, 1792, were sold by the Bank of the United States, and its branches at New York and Baltimore. The accounts of the sales had just been made out for settlement when the present inquiry began, but warrants had not yet issued for placing

the proceeds in the Treasury. It will be remarked that, from the terms of credit allowed, they only began to be receivable in October last, the 26th day of which month the first return made by the bank shows a sum of 127,225 dollars and 53 cents received, and that the collection had not been completed when the accounts of the sales were rendered.

There are different views of the subject which will enable the House to perceive that the possession of the fund in question was necessary to enable the Treasury to furnish the means of making all the purchases which were made prior to July, 1792.

It is true that there was a surplus of revenue to the end of the year 1790, equal to 1,374,656 dollars and 40 cents, which was appropriated to purchases of the debt; and, from the credits then given upon the duties, this surplus would naturally come into the Treasury in the course of the year 1791.

But the Legislature, foreseeing that the revenue of 1791, from the same cause, could not actually be in the Treasury within that year, to face the appropriations upon it (which, it is to be observed, were nearly commensurate with the fund), inserted a clause in the law appropriating the surplus of 1790 to the purchase of the debt, which authorized a reservation of so much of that surplus as might be necessary to make the payments of interest during 1791, in cases of a deficiency in the receipts into the Treasury, on account of the current revenue of the year.

It will appear to the House, upon a recurrence to the Treasurer's quarterly account, ending the 30th

of September, 1791, that the balance of cash then on hand was 662,233 dollars and 99 cents.

At that time there had been paid into the Treasury, upon warrants, from the proceeds of the bills drawn upon the foreign fund, 361,391 dollars and 34 cents; consequently the balance of cash, had it not been for that auxiliary, would have been only 300,842 dollars and 65 cents, considering the whole balance in the Treasury as representing an equal sum of the proceeds of the bills.

Even in a time of complete peace, in a country where a small extent of moneyed capital forbids a reliance upon large pecuniary aids to be suddenly obtained, a prudent administrator of the finances could not feel entirely at ease with a less sum, at all times in the certain command of the Treasury, than 500,000 dollars, for meeting current demand and extra exigencies, which, in the affairs of a nation, are every moment to be expected. But, with a war actually on hand, and a possibility of its extension to a more serious length, he would be inexcusable in leaving himself with a less sum at command, unless from an impracticability of doing otherwise. It would be always his duty to combine two considerations—the chance of extra calls for money, and a possibility of some failure in the receipts which were expected. Derangements of various kinds may happen in the commercial circle, capable of interrupting, for a time, the punctual course of payments to the Treasury. It is necessary, to a certain extent, to be prepared for such casualties.

But during the year 1791 there was a circum-

stance which operated as an additional reason for keeping a respectable sum always on hand. The loans of the domestic debt were going on till the last of September of that year; while, at the same time, the interest was in a course of payment. It was, therefore, always uncertain what sum would be payable at the end of a quarter, this depending on the eagerness or backwardness of the public creditors in bringing forward their subscriptions or their claims as non-subscribers. The omissions at the end of a preceding quarter might be expected to fall upon a subsequent one; and it was necessary to be prepared for that possibility; of course, to keep in hand a larger fund for contingent demands. This necessity extended to the termination of the period for receiving subscriptions; because the Treasury was to be prepared on the supposition that the whole of the domestic debt would then be in a state to receive interest, either as *subscribed* or *unsubscribed*. But this did not, in fact, happen. A part of the sums which were presented were crowded into the last days of the quarter, and were too late for a dividend. A considerable sum remained ultimately in a form which, according to the terms of the provision, did not entitle it to interest, either as *subscribed* or as *unsubscribed* debt.

Hence the cash in the Treasury on the 1st of October, 1791, was by a considerable sum greater than was to have been counted upon, or than might have happened.

The conclusion which results from the foregoing observations is this: that the purchases which preceded the 1st of October, 1791, and which amounted

to 699,984 dollars and 23 cents in specie, could not have been hazarded, but for the aid of the sums which had actually accrued from the proceeds of the bills and the expectation of those which were to accrue from the yet uncollected proceeds of others.

Had it not been for this aid, the Treasury would have been left more bare than was consistent with the security of public credit and the certain execution of the public service.

There is, however, a later period in the state of the Treasury, which will more completely illustrate the idea intended to be established. This is the 2d of July, 1792.

On that day the balance of cash in the Treasury, comprehending the deposits in all the banks, and including a sum of 200,000 dollars received on loan of the Bank of the United States, together with a sum of 220,900 dollars in bills drawn upon domestic funds, the proceeds of which had not been received, was 623,133 dollars and 61 cents.

Prior to this period a further sum of 545,902 dollars and 89 cents, arising from the sales of foreign bills, had been placed in the Treasury by warrants, making, with the former sums placed there from the same source, 907,294 dollars and 23 cents.

Had it not been for this auxiliary and that of the loan from the bank, the Treasury would then have been in arrear 484,160 dollars and 62 cents. It, therefore, necessarily follows that for the purchases to that period, which amounted in specie to 942,672 dollars and 54 cents, at least 484,160 dollars and 62 cents must have come from the foreign fund.

But when it is considered, for the reasons which have been stated, and which will hereafter be fortified by others, tending, as I conceive, to give them conclusive force, that the sum in the Treasury at the period in question was barely what ought to have been there for safety and for a due supply of current demands, it will follow that the whole, or nearly the whole, of the purchases which were made previous to July, 1792, were made by the means or instrumentality of the foreign fund.

A similar view, extended to the subsequent quarter, will exhibit this point in a still clearer light. The balance then in the Treasury, including a further loan from the bank of 100,000 dollars, was only 420,914 dollars and 51 cents.

What, then, it may be asked, became of the surplus revenue to the end of the year 1790? what was the office performed by that fund during the period in question?

The answer is that it served exactly the purpose which was anticipated by the Legislature. It came in aid of the current receipts for satisfying the current expenditures of 1791, with particular reference to the interest of the debt. This will easily be comprehended when it is recollected that the appropriations made during 1791 upon the revenues of that year, and some small surpluses of antecedent appropriations, amounted to 3,637,058 dollars and 34 cents; that the revenues themselves amounted to no more than 3,553,195 dollars and 18 cents; and that, at the end of 1791, there were outstanding, in bonds for the duties on imports, besides the chief part of

the proceeds of the duties on spirits distilled within the United States, then also uncollected, 1,828,269 dollars and 28 cents.

On this point, likewise, of the surplus of revenue to the end of 1790, it is presumable a misapprehension has been entertained. It seems to have been supposed that that surplus, as well as the proceeds of the foreign fund, have been kept separate and distinct from the common mass of the moneys appearing from time to time to be in the Treasury.

It has been already observed that this was not the case with regard to the foreign fund. It is now proper to add that it has not been the case either with regard to the surplus question. That surplus, as received by the collectors of the customs, has regularly passed into the Treasury, and appears in the quarterly accounts of the Treasurer for the periods to which they relate.

It is the course of the Treasury, resulting from the constitution of the Department, for all moneys, from whatever source, to be brought into it, to constitute an aggregate, subject to the dispositions prescribed by law. The moneys to be employed in the sinking fund have consequently only been separated, as they have been called for, *for actual investment*. The only exception to this relates to that part of the sinking fund which is created by the interest of the debt purchased. This has been included in the quarterly dividends, and covered by the warrants in favor of the cashiers of the banks for paying those dividends, after which they have passed into a dis-

tinct account in the books of the bank opened with Samuel Meredith as agent to the commissioners of the sinking fund.

To the foregoing representation it may seem an objection that the purchases to the end of 1791 appear to have been carried to the account of the surplus at the end of 1790.

The ultimate form which it has been judged convenient to give to the transaction in the accounts of the Treasury cannot change what was truly the course of facts. The proceeds of the above-mentioned surplus and of the foreign loans formed together the fund for purchases. In the accounts of the Treasury the thing was susceptible of various modifications at pleasure. The two parts of the fund might have been united in one account, or divided into distinct accounts. Being separated, moneys issued for purchases might have been legally carried to either of them.

It was judged most advisable in the forms of the Treasury to place the purchases to the end of 1791 to the account of the domestic fund, because it was calculated to give greater latitude and energy to the sinking fund. Had not this course been pursued the business would have taken the following shape: the foreign fund, to the extent of the purchases, would have been exhausted; the whole, or the greater part of the surplus of 1790, would have continued wrapt up in the expenditure of 1791, not liable to be liberated till the *receipts* into the Treasury should yield a correspondent surplus beyond the *actual disbursements*—which could not have been

the case while the war with the Indians continues to call for extraordinary expenditures.

From the form into which the thing has been thrown, the foreign fund has been set free to be applied to further purchases; and a necessity produced of anticipating the outstanding duties by temporary loans for the current service.

I trust there can be no doubt that the course pursued was regular and within the discretion of the Department. I hope, also, that it will appear to the House to have been the most eligible. The expediency of giving the earliest and greatest possible extent and activity to whatever concerns the sinking fund will, it is presumed, unite all opinions.

What has been said hitherto respecting the employment of the foreign fund is applicable only to that part of it which was drawn for prior to April, 1792; the residue standing in a different situation, and requiring a separate examination.

From the statement which has been given, it may be perceived that the fund in question has neither been idle nor useless. A confirmation of this will be found in the following details:

The whole sum successively received on account of Amsterdam bills, up to the 17th of August, 1791, was 361,391 dollars and 34 cents. The amount of the moneys invested in purchases prior to that day was 350,000 dollars, chiefly by anticipation of those receipts.

The whole sum successively received on account of Amsterdam bills, from August 17, 1791, to March 1, 1792, was 408,722 dollars and 69 cents. The amount

of the moneys invested in purchases between those periods was 349,984 dollars and 23 cents, chiefly in the month of September, and by anticipation of those receipts.

The whole sum successively received on account of Amsterdam bills, subsequent to the 1st of March, and prior to July, 1792, was 235,412 dollars and 33 cents. The amount of the moneys invested in purchases between those periods was 242,688 dollars and 31 cents.

It was stated in my first letter, that 177,998 dollars and 80 cents of the proceeds of the foreign bills were left in deposit with the Bank of North America; and in a note upon statement B, accompanying that letter, the occasion of it was shown to be an advance without interest, made by that bank, for the use of the Department of War; which could not yet be covered, in consequence of a doubt still remaining, whether the fund appropriated for satisfying that object was adequate to it—the sufficiency of that fund depending in part on certain unexpended residues of antecedent appropriations, which it was expected would not be finally necessary for satisfying the purposes of those appropriations.

It is to be remarked, that the delay of the employment of this part of the proceeds of the foreign fund has been compensated by a saving of interest on the sum advanced by the bank, which otherwise must have been procured upon a loan with an allowance of interest, probably at the time of the advance, at a rate of six per cent.; so that, even in this particular, the fund, though temporarily suspended from its

destination, has not been idle or unproductive. I reserve for another place some additional observations and statements, which will be calculated to shew that opportunities of investing the moneys at any time on hand, applicable to purchases of the debt, were not suffered to pass unimproved. and that as much in this respect was done as the state of the Treasury and the state of the market would permit.

It has been said, that a distinct examination would be proper with regard to the bills which have been drawn upon the foreign fund subsequent to March, 1792. I proceed now to this examination.

The expediency of what has been, in this respect, done, seems to have been called in question, under a suggestion, that an application of the fund to purchases had ceased to be advantageous.

The drawing of these bills has been at different periods influenced by various considerations. A leading motive was always the purchase of the debt. And a correct view of the subject will, I doubt not, satisfy the House, that the measure was recommended by an adequate prospect of advantage.

It is to be observed, that all these drafts were predicated upon the two four-per-cent. loans; being, as already stated, real $4\frac{1}{2}$ -per-cent. loans.

There was good ground to presume, that opportunities would be found of investing the moneys drawn for in purchases which would yield at least five per cent. with a possibility of doing still better. The difference of $\frac{1}{2}$ per cent. was alone an object of importance; but it would be coupled with the further benefit of reducing a principal sum materially

exceeding the sum invested. When the three per cents are purchased at 12s. in the pound, there is not only a redemption of an annuity of five per cent. but a sinking of a capital of 20s. for 12s. And though this might not be material, if the market rate of interest should never fall below five, because in that case the three per cents might always be purchased at the same rate; yet if it should at any time happen, that interest fell below five, it would be a gain to the Government to have purchased at five, in exact proportion to the difference between five and the then market rate. Add to this, that the three per cents have generally a value in the market more than proportioned to the income they produce, which arises from the capacity of the capital to appreciate even to par. These observations are also for the most part applicable to the deferred, with this circumstance in addition, that, when interest begins to be payable on that species of stock, the money invested, and which, in the meantime, would have produced five, would then begin to produce to the Government six per cent., with the advantage of having anticipated the redemption of a species of stock of right only gradually redeemable. Combining these considerations, it appears to be clearly and even eminently for the interest of the Government to purchase within the limit suggested, with a fund which does not cost more than $4\frac{1}{2}$ per cent.

That this was the view of the subject which governed, is deducible not only from the circumstances of the fact, but from my letter of the 2d of April, 1792, to Mr. Short, announcing my intention to draw,

in which I assign as the ground of that intention, "that I considered it for the interest of the United States to prosecute purchases of the public debt with moneys borrowed on the terms of the last loan," meaning the loan of the 1st of January, 1792, at four per cent.

If the event be taken as a criterion, the anticipation will be more than justified, the present juncture offering an opportunity for purchases peculiarly advantageous.

But, without insisting on a state of things occasioned by extraordinary circumstances, it was morally certain that the common course of events would render the operation a beneficial one. And it would not argue peculiar foresight, if a calculation was even made on the effect which the situation and probable progress of affairs in Europe might produce upon our market. A pretty general war there, by extending the demand for money, would naturally divert from our stocks a portion of what might otherwise be employed upon them, and affect injuriously their prices. It is also a familiar fact that, during the winter, in this country, there is always a scarcity of money in the towns—a circumstance calculated to damp the prices of stock.

A consideration, which collaterally influenced the drawing of the later bills, was the situation of the French colony of St. Domingo.

This not only produced an early application for a considerable advance, which was promised, but it was to be foreseen, that still further aids would be indispensable.

Indeed, sundry letters from Mr. Short, the first dated at Paris, the 28th of December, 1791, announced the daily probability of an arrangement requiring an advance here of 800,000 dollars for the use of that colony. A sum of 4,000,000 of livres has in fact been successively stipulated for that object, the greatest part of which has been actually furnished.

It is known that these supplies could proceed from no other source than the foreign fund.

The payment to the foreign officers of near 200,000 dollars, by which an interest of six per cent. would be released, was another object for which provision was to be made out of the same fund.

These several purposes conspired with the object of purchasing the debt to induce the latitude of drawing which took place.

But there was still a further inducement which came in aid of the others. The time for reimbursing the first instalment of the two millions of dollars due to the bank was approaching, when, by positive stipulation, the Government would have to pay two hundred thousand dollars, for which there was no domestic fund that could be spared from the current exigencies. I thought it incumbent upon this Department to have an eye to placing within the reach of the Legislature the means of fulfilling this engagement; the object of which bore a strict analogy to that for which the two millions authorized by the act making provision for the reduction of the public debt were to be borrowed.

I did not even scruple to take into the calculation, that if, from the extent of the draughts upon the

foreign fund, there should happen to be found on hand a larger sum than was necessary for, or could be advantageously employed towards, the several purposes which were the immediate and direct objects of the operation, the surplus would facilitate to the Government a measure manifestly and unequivocally beneficial—an additional payment to the bank, on account of a debt upon which an annual interest of six per cent. was payable; a measure by which a certain saving of one per cent., to the extent of the payment that might be made, would be accomplished.

The possibility of this application of the fund afforded a perfect assurance, that the public interest could in no event fail to be promoted.

I felt myself the more at liberty to do it, because it did not interfere with a complete fulfilment of the public engagements in regard to the foreign debt. It could be done consistently with a full reimbursement of all arrears and instalments which had accrued on account of that debt.

The detail which has been given comprehends a full exposition of the views and motives that have regulated the conduct of this Department in relation to those parts of the proceeds of the foreign loans which have been transferred to the United States, except as to the last sum of 1,237,500 florins, directed to be drawn for on the 30th of November last; in regard to which, circumstances of a special nature co-operated, as is explained in a note upon the copy of my letter of the 26th of that month to Mr. Short, forming a part of the communication herewith made by order of the President of the United States.

The House will perceive that the variety of matter comprised in this letter has not been collected and digested into its present form, without much labor and unavoidable expense of time. I trust they will be sensible that no delay has been unnecessarily incurred. It is certain that I have made every exertion in my power, at the hazard of my health, to comply with the requisitions of the House as early as possible. And it has even been done with more expedition than was desirable to secure the perfect accuracy of the communication.

Yet I have still to regret that some part of the subject must remain to be presented in a subsequent letter. To lessen, however, the inconvenience of this further delay, I shall transmit with the present letter the statements required by the first and second of the resolutions of the 23d of January, which will be found in the schedules herewith, marked Nos. I. to V.; those required by the last of the resolutions having been already forwarded.

There remain, however, some particulars to complete the information contemplated by those resolutions, that must be reserved for another communication. This I may venture to assure the House will not be deferred beyond the present, or at least the first day of the ensuing week.

With perfect respect, I have the honor to be, sir,

Your most obedient and most humble servant,

ALEXANDER HAMILTON,

Secretary of the Treasury.

The Honorable the Speaker of the
House of Representatives.

No. I.—A statement of the appropriation for reducing the public debt, constituted by the act of Congress passed on the 12th day of August, 1790.

No. II.—A statement of the application of the funds drawn on the appropriation of the surplus of duties to the end of the year 1790, for the reduction of the public debt.

No. III.—A statement of the application of the fund constituted by the act of Congress, passed on the 8th of May, 1792, for reducing the public debt, arising from the interest on the sums of said debt purchased, redeemed, and paid into the Treasury of the United States.

No. IV.—Quarterly statement of cash in the hands of the Treasurer of the U. S. for the year 1791.

No. V.—Statement of cash in the Treasury, during the year 1792, showing the balance on hand half monthly.—*State Papers*, "Finance," vol. i., 210-214.

Communicated to the House of Representatives.

TREASURY DEPARTMENT, February 13, 1793.

SIR:

In obedience to an order of the President of the United States, founded upon the requests contained in two resolutions of the House of Representatives of the 23d of January last, I have the honor to lay before the House—

1. The several papers numbered 1, 2, 3, 4, being copies of the authorities under which loans have been negotiated, pursuant to the acts of the 4th and 12th of August, 1790.

2. Sundry letters, as per list at foot, from the Secretary of the Treasury to William Short, Esq., and to Wilhem and J. Willink, N. and J. Van Staphorst and Hubbard, being copies of the authorities respecting the application of the moneys borrowed.

3. Statement A, showing the names of the persons by whom, and to whom, the respective payments of

the French debt have been made in Europe, specifying the dates of the respective payments and the sums. With regard to the precise dates of the respective drafts which may have been drawn, or orders which may have been given by Mr. Short to our bankers for making those payments, they cannot be furnished, not being known at the Treasury. It is, however, to be inferred from the correspondence and circumstances that they preceded but a short time the respective payments to which they related.

Statement B, showing by whom the payments have been made, on account of the Dutch loans, the dates, and the sums. As to the persons to whom the payments were made, no specification is practicable, these being the numerous subscribers to the several loans, their agents or assignees. It has never been considered, either under the former or present Government, as interesting to the Treasury to know who those individuals were. Indeed, by the transfers always going on, they are continually changing. The demand for a communication of their names would have been unprecedented, and the disclosure from time to time would have been attended with a great deal of useless but expensive trouble.

The statement desired in reference to the Spanish debt cannot be furnished. In a note upon statement No. 1 of my late report concerning foreign loans it is mentioned, "that advice had been received that the payment of this debt was going on, though it had *not been completed.*" This appears by letters from Mr. Short, now before the Senate, dated August 30th and

October 9th and 22d. No advice of the completion of the payment has been since received. All that is known is that our bankers were procuring bills, under orders from Mr. Short, for the purpose of remitting to Spain the sum necessary to discharge her debt.

There will be seen a difference in the statement now presented and No. 1 of my late report concerning foreign loans, as to the date of the last payment to France. In one the 9th of August is mentioned; in the other, the 6th of September. The fact is that it had its inception some time in August, but was not perfected till the 6th of September. Mr. Morris, who had been charged by Mr. Short with endeavoring to adjust with the French Treasury the rule by which the payments that had been and might be made should be liquidated into livres, having regard to certain equitable considerations, made an arrangement with it, provisionally, for the payment of 1,641,250¹ florins, and wrote to Mr. Short requesting that he would direct the payment to be completed. There appear to have been two letters from Mr. Morris on the subject, one dated the 6th, the other the 9th of August. But Mr. Short, for reasons which he explains in his correspondence, now before the Senate, did not consummate the payment till the 6th of September. One statement has reference to the beginning, the other to the conclusion, of the affair.

I am instructed by the President to observe that there are some circumstances in the communications

¹ 1,625,000 Banco.

now made which would render a public perusal of them not without inconvenience.

With perfect respect, I have the honor to be, sir,

Your most obedient and most humble servant,

ALEXANDER HAMILTON,

Secretary of the Treasury.

The Honorable the Speaker of the
House of Representatives.

No. 1

George Washington, President of the United States of America, to the Secretary of the Treasury for the time being.

By virtue of the several acts, the one entitled "An act making provision for the debt of the United States," and the other entitled "An act making provision for the reduction of the public debt," I do hereby authorize and empower you, by yourself, or any other person or persons, to borrow, on behalf of the United States, within the said States, or elsewhere, a sum, or sums, not exceeding, in the whole, fourteen millions of dollars, and to make, or cause to be made for that purpose, such contract, or contracts, as shall be necessary, and for the interest of the said States, subject to the restrictions and limitations in the said several acts contained; and, for so doing, this shall be your sufficient warrant.

In testimony whereof I have caused the seal of the United States to be hereunto affixed.

Given under my hand, at the city of New York, this twenty-eighth day of August, in the year of our Lord one thousand seven hundred and ninety.

GEORGE WASHINGTON.

By the President :

TH. JEFFERSON.

VOL. III.—9.

No. 2

George Washington, President of the United States of America, to the Secretary of the Treasury for the time being.

Having thought fit to commit to you the charge of borrowing, on behalf of the United States, a sum, or sums, not exceeding, in the whole, fourteen millions of dollars, pursuant to the several acts, the one entitled "An act making provision for the debt of the United States," and the other entitled "An act making provision for the reduction of the public debt," I do hereby make known to you that, in the execution of the said trust, you are to observe and follow the orders and directions following, viz.: Except where otherwise especially directed by me, you shall employ, in the negotiation of any loan, or loans, which may be made in any foreign country, William Short, Esq. You shall borrow, or cause to be borrowed, on the best terms which shall be found practicable (and within the limitations prescribed by law as to time of re-payment and rate of interest), such sum, or sums, as shall be sufficient to discharge, as well all instalments, or parts of the principal of the foreign debt which now are due, or shall become payable to the end of the year one thousand seven hundred and ninety-one, as all interest and arrears of interest which now are or shall become due, in respect to the said debt, to the same end of the year one thousand seven hundred and ninety-one. And you shall apply, or cause to be applied, the moneys which shall be so borrowed, with all convenient despatch, to the payment of the said instalments, and parts of the principal and interest, and arrears of the interest of the said debt. You shall not extend the amount of the loan which you shall make, or cause to be made, beyond the sum which shall be necessary for completing such pay-

ment, unless it can be done upon terms more advantageous to the United States than those upon which the residue of the said debt shall stand or be. But if the said residue, or any part of the same, can be paid off by new loans, upon terms of advantage to the United States, you shall cause such further loans as may be requisite to that end to be made, and the proceeds thereof to be applied accordingly. And for carrying into effect the objects and purposes aforesaid, I do hereby further empower you to make, or cause to be made, with whomsoever it may concern, such contract or contracts, being of a nature relative thereto, as shall be found needful, and conducive to the interest of the United States.

If any negotiation with any prince or state to whom any part of the said debt may be due should be requisite, the same shall be carried on through the person who, in capacity of Minister, *Chargé des Affaires*, or otherwise, now is, or hereafter shall be charged with, transacting the affairs of the United States with such prince or state; for which purpose I shall direct the Secretary of State, with whom you are in this behalf to consult and concert, to co-operate with you.

Given under my hand, at the city of New York, this twenty-eighth day of August, in the year of our Lord one thousand seven hundred and ninety.

GEO. WASHINGTON.

No. 3

To all to whom these presents shall come:

Whereas by an act passed the fourth day of August, in this present year, entitled "An act making provision for the debt of the United States," it

is, among other things, enacted, that the President of the United States be authorized to cause to be borrowed, on behalf of the United States, a sum, or sums, not exceeding, in the whole, twelve millions of dollars, and that so much of that sum as may be necessary to the discharge of the said arrears and instalments, and (if it can be effected upon terms advantageous to the United States) to the paying off the whole of the said foreign debt, be appropriated solely to those purposes; and that the President be, moreover, further authorized to cause to be made, such other contracts respecting the said debt as shall be found for the interest of the said States: Provided, nevertheless, that no engagement or contract shall be entered into, which shall preclude the United States from reimbursing any sum or sums borrowed, within fifteen years after the same shall have been lent or advanced:

And whereas, by another act, passed the twelfth day of August, in the present year, entitled "An act making provision for the reduction of the public debt," it is also, among other things, enacted, that the President of the United States be authorized to cause to be borrowed, on behalf of the United States, a sum, or sums, not exceeding in the whole two millions of dollars, at an interest not exceeding five per cent.:

And whereas, by virtue of the said several acts, the President of the United States of America hath been pleased, by a certain commission or warrant, under his hand, to authorize and empower the Secretary of the Treasury for the time being, by him-

self, or any other person or persons, to borrow, on behalf of the United States, within the said States, or elsewhere, a sum, or sums, not exceeding, in the whole, fourteen millions of dollars, and to make, or cause to be made, for that purpose, such contract or contracts as shall be necessary, and for the interest of the said States, subject to the restrictions and limitations in the said several acts contained: And whereas Messrs. Wilhem and Jan Willink, and Nicholaas and Jacob Van Staphorst and Hubbard, have, by letter, bearing date the twenty-fifth day of January, 1790, communicated to me, that they have entered into a certain provisional agreement, or arrangement, for a loan of three millions of florins, for the use of the United States of America, bearing an interest of five per centum per annum, and reimbursable by yearly instalments of six hundred thousand florins, commencing in the year one thousand eight hundred and one, and ending in the year one thousand eight hundred and five: And whereas it appears to me for the interest of the said United States to accept the said loan:

Now, therefore, be it known: That I, Alexander Hamilton, Secretary of the Treasury of the United States for the time being, by virtue of the power and authority in me vested, by the said President of the United States, and in his name, and on behalf of the United States of America, and to their use, do, by these presents, accept, agree to, ratify, and confirm the loan aforesaid, provisionally undertaken by the said Wilhem and Jan Willink, and Nicholaas and Jacob Van Staphorst and Hubbard. And I do

hereby authorize and empower the said Wilhem and Jan Willink, and Nicholaas and Jacob Van Staphorst and Hubbard, or, in case of the death of any of them, the survivors, to borrow, on behalf of the United States, either by way of confirmation of the said provisional agreement, or otherwise, as need may be, a sum, or sums, not exceeding, in the whole, three millions of florins, subject to the restrictions and limitations in the said several acts contained and above recited; and for that purpose, in the name of the said President, on behalf of the United States of America, to execute such contracts, obligations, and instruments as shall be necessary, and conformable to usage, in the like cases, and the faith of the United States to pledge for the performance of the terms thereof; and if the same shall be deemed requisite, to stipulate for the ratification thereof by the President of the United States; hereby giving and granting to the said Wilhem and Jan Willink, and Nicholaas and Jacob Van Staphorst and Hubbard, and the survivors of them, all my power and authority in the premises, and ratifying, allowing, and confirming whatsoever they shall lawfully do therein.

In testimony whereof, I have caused the seal of the Treasury to be affixed to these presents, and have hereunto subscribed my hand, the twenty-eighth day of August, in the year of our Lord one thousand seven hundred and ninety.

ALEXANDER HAMILTON,
Secretary of the Treasury.

No. 4

To all to whom these presents shall come:

Whereas, by an act passed the fourth day of August, in this present year, entitled "An act making provision for the debt of the United States," it is, among other things, enacted, that the President of the United States be authorized to cause to be borrowed, on behalf of the United States, a sum, or sums, not exceeding, in the whole, twelve millions of dollars, and that so much of that sum as may be necessary to the discharge of the said arrears and instalments, and (if it can be effected upon terms advantageous to the United States) to the paying off the whole of the said foreign debt, be appropriated solely to those purposes; and that the President be, moreover, further authorized to cause to be made such other contracts respecting the said debt as shall be found for the interest of the said States: Provided, nevertheless, that no engagement or contract shall be entered into which shall preclude the United States from reimbursing any sum or sums borrowed, within fifteen years after the same shall have been lent or advanced:

And whereas, by another act, passed the twelfth day of August, in the present year, entitled "An act making provision for the reduction of the public debt," it is, also, among other things, enacted that the President of the United States be authorized to cause to be borrowed, on behalf of the United States, a sum, or sums, not exceeding, in the whole, two millions of dollars, at an interest not exceeding five per cent.:

And whereas, by virtue of the said several acts, the President of the United States of America hath been pleased by a certain commission or warrant, under his hand, to authorize and empower the Secretary of the Treasury for the time being, by himself, or any other person or persons, to borrow, on behalf of the United States, within the said States, or elsewhere, a sum, or sums, not exceeding, in the whole, fourteen millions of dollars, and to make, or cause to be made, for that purpose, such contract or contracts as shall be necessary, and for the interest of the said States, subject to the restrictions and limitations in the said several acts contained:

Now, therefore, know ye: That I, Alexander Hamilton, Secretary of the Treasury of the United States for the time being, by virtue of the said commission, power, or warrant of the President of the United States of America, have authorized and empowered, and by these presents do authorize and empower, William Short, *Chargé des Affaires* of the United States at the court of France, to borrow, on behalf of the United States, in any part of Europe, a sum, or sums, not exceeding, in the whole, fourteen millions of dollars, and to make, or cause to be made, for that purpose, such contract or contracts as shall be necessary, and for the interest of the said States, subject to the restrictions and limitations in the said several acts contained; and for so doing this shall be his sufficient warrant.

In testimony whereof, I have caused the seal of the Treasury to be affixed to these presents, and have hereunto subscribed my hand, the first

day of September, in the year of our Lord one thousand seven hundred and ninety.

ALEXANDER HAMILTON,
Secretary of the Treasury.

A.—Statement showing the dates and sums of the respective payments which have been made on account of the debt due to France, out of the Dutch and Antwerp loans; and by whom, and to whom, the moneys were remitted or paid.

B.—Statement showing the respective payments which have been made by William and John Willink, Nicholas and Jacob Van Staphorst and Hubbard, in Amsterdam, to individuals, upon the several loans made in Holland, on account of the United States.

PUBLIC FUNDS

Communicated to the Senate, February 14, 1793.

TREASURY DEPARTMENT, February 14, 1793.

SIR:

I have the honor to transmit, herewith, in further pursuance of the order of the Senate of the 23d of January past, three several statements, marked A, B, C.:

A being a general account of revenue and appropriations: exhibiting, on one side, all the income of the United States, except from the proceeds of loans, foreign and domestic, to the end of the year 1792; on the other, the respective amounts of all the appropriations which have been made by law, to the same period.

B being a general account of appropriations and expenditures to the same end of the year 1792. This statement takes up the excess of the appropriations beyond the expenditure, to the end of the year

¹ See *State Papers*, "Finance," vol. i., p. 218.

1791, as contained in the account of receipts and expenditures, reported to the House of Representatives during the present session; and, including all the subsequent appropriations and expenditures to the end of 1792, shows the balance unsatisfied of each head of appropriation.

C being an explanatory statement, for the purpose of showing a conformity between the aggregate of the balances of appropriations unsatisfied, and the balance of the public income beyond the public expenditure, to the end of the year 1792, as represented in the statement B, heretofore reported.

It will be observed, that the most considerable item among the balances of appropriations is for interest on the public debt—amounting to one million three hundred and ninety-five thousand eight hundred and twenty-four dollars and sixty-five cents. This happens in three ways. 1st. The interest on the foreign part of the debt has been paid in Europe, out of the proceeds of the loans; the sum paid will consequently require to be replaced out of the domestic funds, and will operate as if an equal sum had been transferred here by drafts. 2d. The payment of interest to certain States, upon the difference between their quotas of the assumed debt and the sums subscribed upon the first loan, has been suspended, in consequence of the opening of the second loan, to avoid a double payment of interest, first to the States, and next to the subscribers, which might otherwise happen. 3d. There is a part of the public debt which has continued in a form that has not entitled the holders, under the existing

laws, to receive interest either as subscribers or non-subscribers.

There are certain arrears of interest, on the part of the debt entitled to interest, which did not come into the accounts of the year 1792.

This balance of interest, however, will be a real future expenditure, as, indeed, will be the case with regard to most of the other balances of appropriations. There will be surpluses, but these surpluses cannot exceed, if they equal, the sum mentioned in my letter of the 4th instant, to the House of Representatives.

With perfect respect, I have the honor to be,
Sir, your obedient servant,

ALEXANDER HAMILTON,
Secretary of the Treasury.

To the Vice-President of the United States and
President of the Senate.

A.—Statement of the revenue of the United States, and appropriations charged thereon to the end of the year 1792.

B.—General statement of the appropriations made by law, and of the expenditures of the United States in relation thereto, from the first day of January to the last day of December, 1792.

C.—Statement exhibiting the debts charged upon the unexpended and uncollected income of the United States on the last day of the year 1792.

LOANS

Communicated to the House of Representatives, February 20, 1793.

TREASURY DEPARTMENT, February 19, 1793.

SIR:

The last letter which I had the honor to address to the House of Representatives contained a pretty full

exposition of the conduct and views of this Department in regard to the foreign loans. There remain, however, some incidental topics which it may not be expedient to pass over in silence.

In order to carry the attention of the House immediately to a just application of the remarks which will be submitted, it is necessary to premise that it is known to have been suggested that the proceeds of the foreign bills drawn for to this country had no object of public utility—answered none—and were calculated merely to indulge a spirit of favoritism toward the Bank of the United States.

It has already been shown, clearly, I trust, that, but for the instrumentality of the parts of the loan drawn for prior to April, 1792, amounting nearly to one half of the whole sum, the purchases of the debt which were made to that time could not have been made; and that these purchases, besides being *the object designated by law*, for the application of the fund, were productive of positive and important advantages.

How far the operation could have been influenced by motives of favor to the Bank of the United States, the following facts will still more completely decide.

That bank did not begin its operations till the 12th of December, 1791.

The banks of North America and New York were the agents of the Treasury for the sale of the bills in question. They sold them, collected and, with the exception which will be presently stated, disbursed the proceeds.

The receipts on account of those bills began in March, 1791, and concluded in March, 1792.

On the 31st of December, 1791, as the Treasurer's account before the House will show, the public cash was deposited as follows:

In the Bank of the United States . . .	\$133,000 00
Bank of North America . . .	471,972 28
Bank of New York . . .	224,677 35
Bank of Massachusetts . . .	65,578 22
Bank of Maryland . . .	50,665 29
Bank of Providence . . .	7,969 61
	<hr/>
Making, together . . .	\$953,862 75

There was then also some moneys in the banks of North America and New York, in a course of receipt, which had not been passed over to the Treasurer; but all the public moneys, of whatever kind, in the Bank of the United States, are included in the above sum of 133,000, which had arisen from the duties on imports and tonnage.

It appears, then, that, on the 31st of December, 1791, no transfer for the benefit of the Bank of the United States had been made; and that the deposits of the Government there (exclusive of the proceeds of the bills remaining in the two banks, of North America and New York) amounted to little more than one fourth of the deposits in the Bank of North America, and little more than one half of those in the Bank of New York.

As late as the 1st of February, the State banks continued to share with the Bank of the United States a large proportion of the public deposits. The state of the Treasury then was as follows, viz.:

In the Bank of the United States . . .	\$456,278	90
Bank of North America	151,516	32
Bank of New York	128,708	21
Bank of Massachusetts	71,215	55
Bank of Maryland	49,583	25
Bank of Providence	7,969	61
	<hr/>	
Making, together	\$865,271	84

A concentration of the public deposits in the Bank of the United States was a measure which grew out of the relation between that establishment and the Government. Yet, instead of hastening it through favor, it was resolved to let it have a gradual course; so as to consult, in a due degree, the convenience of the other banks, and to effect it rather by letting the public disbursements fall upon the moneys in those banks than by direct transfer.

But a state of things took place in the month of February, between the banks of the United States and North America, which rendered a more expeditious transfer than was meditated, for the mutual convenience of the two institutions.

The effect of this was, that the state of the Treasury, on the 1st of March, stood as follows:

In the Bank of the United States . . .	\$692,959	06
Bank of Massachusetts	31,769	05
Bank of New York	32,352	52
Bank of North America	31,515	74
Bank of Providence	8,404	94
Bank of Maryland	34,752	85
	<hr/>	
Making, together	\$831,754	16

But at this time there was in the Bank of New York, from the proceeds of the foreign bills, 121,984 dollars and 71 cents, not transferred to the account of the Treasurer.

This accumulation, however, in the Bank of the United States, was of very short duration.

On the 1st of April ensuing, the state of the public cash was as follows:

In the Bank of the United States . . .	\$359,643 64
Bank of New York . . .	254,930 41
Bank of North America . . .	31,515 74
Bank of Massachusetts . . .	37,712 58
Bank of Providence . . .	7,156 65
Bank of Maryland . . .	60,418 32
	<hr/>
Making, together . . .	\$751,377 34

A similar state of things lasted to the 1st of June, comparatively more disadvantageous to the Bank of the United States. The receipts of public revenue continued to go into the Bank of New York till the 1st of April, 1792, when a branch of the Bank of the United States began to operate in that city; which is the reason of the sum in the Bank of New York bearing so near a proportion to that of the United States, and so far exceeding the Bank of North America. By this time, also, the balance of the proceeds of foreign bills had been passed to the account of the Treasurer; yet still remaining in deposit in the Bank of New York.

These views of the state of the public cash are conformable to the Treasurer's statement of half-

monthly balances, accompanying my letter of the 13th instant, No. V.

The same statement will show, that a proportion of the public deposits has continued, since the 1st of April, 1792, in the State banks; in those of North America and New York down to the end of the period which that statement embraces.

From these details the following inferences are deducible.

That, as far as any advantages may have accrued from the deposits on account of the foreign bills drawn prior to April, 1792, they accrued substantially to the banks of North America and New York, not to the Bank of the United States, or to its branches. That, in transferring the pecuniary concerns of the Government from the pre-existing banks to that of the United States and its dependencies, a cautious regard has been paid to the convenience of the former institutions, and the reverse of a policy unduly solicitous for the accommodation of the Bank of the United States has prevailed. Indeed, so much has this been the case, that it might be proved, if it were proper to enter into the proof, that a criticism has been brought upon the conduct of the Department, as consulting less the accommodation of the last-mentioned institution, than was due to its relation to the Government and to the services expected from it.

But further examination will demonstrate another point; which is, that none of the establishments in question have received any accommodations which were not in perfect coincidence with the pub-

lic interest, and in the due and proper course of events.

This examination will be directed toward two objects: one, the state of the Treasury at the commencement of each quarter during the years 1791 and 1792; the other, the state of the market in regard to the prices of stock during the same years.

These periods are selected, because they afford the truest criterion of the state of the Treasury, from time to time, being those at which the principal public payments are made; and for which it is necessary to be prepared by intermediate accumulations.

The state of the Treasury at the periods in question was as follows:

IN THE YEAR 1791

January 1	\$569,886	55
April 1	373,434	53
July 1	533,638	24
October 1	662,233	99

IN THE YEAR 1792

January 1	953,862	75
April 1	751,377	34
July 1	623,133	61
October 1	420,914	51
January 1, 1793	783,212	37

This appears from the statements Nos. 4 and 5, forwarded with my last letter.

The state of the stock market, during the several quarters of the same years, was as follows:

FIRST QUARTER OF 1791

Six per cents from	.	.	16s.	9d.	to	17s.	6d.
Three per cents from	.	.	8s.	6d.	to	9s.	4d.
Deferred, from	.	.	8s.	6d.	to	9s.	4d.

SECOND QUARTER OF 1791

Six per cents from	.	.	17s.		to	17s.	9d.
Three per cents from	.	.	9s.		to	10s.	
Deferred, from	.	.	8s.	11d.	to	9s.	4d.

THIRD QUARTER OF 1791

Six per cents from	.	.	17s.	10d.	to	21s.	3d.
Three per cents from	.	.	9s.	9d.	to	12s.	5d.
Deferred, from	.	.	9s.	9d.	to	12s.	10d.

As early as the 6th of August, the six per cents had a temporary rise to 21s., but by the 16th they had fallen to 20s.; on the 20th they had risen to 20s. 6d., and were sometimes above that rate, but never lower, during the rest of the quarter.

As early as the 23d of July the three per cents had reached 12s., and were sometimes higher, but never lower, during the rest of the quarter.

On the 23d of July the deferred also reached 12s., and afterwards rose to 12s. 6d.

FOURTH QUARTER OF 1791

Six per cents from	.	.	20s.	4d.	to	22s.	4d.
Three per cents from	.	.	12s.	2d.	to	13s.	8d.
Deferred, from	.	.	11s.	8d.	to	13s.	6d.

The prices were lowest in the early, and highest in the latter, part of the quarter.

During the whole of the month of December, the

deferred was at 12s. 8d. and upwards—the greatest part of the time at 13s.

FIRST QUARTER OF 1792

Six per cents from	.	.	.	21s.		to	25s.
Three per cents from	.	.	.	12s.	6d.	to	15s.
Deferred, from	.	.	.	12s.		to	15s.

The low prices were in the last ten days of March.

SECOND QUARTER OF 1792

Six per cents from	.	.	.	20s.		to	22s.	6d.
Three per cents from	.	.	.	12s.		to	13s.	9d.
Deferred, from	.	.	.	11s.	6d.	to	13s.	4d.

THIRD QUARTER OF 1792

Six per cents from	.	.	.	21s.		to	22s.	3d.
Three per cents from	.	.	.	12s.	4d.	to	13s.	6d.
Deferred, from	.	.	.	12s.	3d.	to	13s.	7d.

FOURTH QUARTER OF 1792

Six per cents from	.	.	.	20s.	2d.	to	21s.	9d.
Three per cents from	.	.	.	12s.	3d.	to	13s.	6d.
Deferred, from	.	.	.	11s.	10d.	to	13s.	6d.

In October the deferred was at the highest. The lowest prices were in the month of December.

This view of the subject is derived from a statement of prices, pursuant to actual purchases and sales, furnished by a dealer of this city, respectable for his intelligence and probity, combined with the accounts from time to time published in the *Gazette of the United States*. The papers marked (A x.) and (B y.) are transmitted for the more particular information of the House on this head.

The market-prices of stocks no doubt varied at other places; at some may have been higher, at others lower. At Philadelphia, too, 't is believed that small sums were obtainable at particular periods, from necessitous individuals, below the prices in the statement.

But there is good ground of reliance that it is substantially a just representation of the state of the stock market during the periods to which it refers.

The state of the Treasury from the 1st of January to the 1st of October, 1791, may be said to have been at its proper level, exhibiting none, or an inconsiderable excess beyond the sum which has been mentioned as necessary to be there, and concerning which a further explanation has been promised, and will be given in the course of this letter. The public purchases in August and September, 1791, amounted to 349,744 dollars and 99 cents.

In the last quarter of the year 1791, beginning with the month of November, and the first quarter of the year 1792, there appears to have been an excess of some magnitude in the Treasury, being from about 250,000 to about 450,000 dollars. Taking the first quarter of 1792 as the truest criterion (which it certainly was, because at the expiration of that quarter the payment of interest on the assumed debt began, and was to be provided for), the real excess ought to be considered as 250,000 dollars; with the addition of about 80,000 dollars then in the Bank of North America from the proceeds of Amsterdam bills, beyond the advances of the bank for the public service, which had not been passed into the Treasurer's

account. It is proper to remark that the course of importations occasions large receipts in the latter part of each year, which circumstance contributed to the accumulation in question.

From the last of November to about the 21st of March an investment of the excess on hand in purchases was impracticable.

To enable the House to understand what is meant by saying that purchases were impracticable during that period, it is necessary to add that the prices of stock exceeded the limits which the commissioners of the sinking fund had prescribed to themselves. Indeed, a large proportion of the time those prices were manifestly artificial, and such as predicted a great fall not far distant. The delay incurred was accordingly well compensated by the prices at which investments were afterward made.

From the 21st of March to the 25th of April purchases were effected to the extent of 242,688 dollars and 31 cents in specie; within 80,000 or 90,000 dollars of what could have been spared, consistently with the rule which has been mentioned, as proper to regulate the arrangements of the Treasury.

But two circumstances operated against a further investment: a sudden rise of prices, and a state of temporary disorder in the two principal mercantile scenes of the country (occasioned by the excessive speculations that had preceded), which admonished the Treasury to be cautious in its disbursements.

It results from the foregoing view of the subject that, as far as any extraordinary sum may appear to have remained unemployed in the banks a longer

term than was desirable, it proceeded essentially from a state of things which did not permit its employment, and is in no degree attributable to that spirit of favoritism toward those establishments, or any of them, which has been imagined as the solution of appearances not rightly understood and much overrated.

The only question, then, of which the matter is susceptible, is this: Was not the state of things that did take place to have been foreseen, so as to have influenced the drawing for a proportionably less sum?

This question may safely be answered in the negative.

The bills, the proceeds of which *contributed* to constitute the excess, which remained unemployed during the two quarters were drawn in May, 1791. In that month the highest prices of stock were 17s. 2d. for six per cents, 9s. 2d., for three per cents, and 9s. 3d. for deferred.

No reasonable anticipation, at this juncture, of the progressive rise of stock could have carried it in so short a time to the height which it attained, or beyond the limits within which purchases were deemed advantageous. The rapid and extraordinary rise which did ensue was, in fact, artificial and violent; such as no discreet calculation of probabilities could have presupposed. It therefore cannot impeach the prudence or expediency of having made provision, on a different supposition, for an extension of purchases.

The proceeds of the bills which were drawn subse-

quent to May only began to be collected about the beginning of February, and continued in collection until the 29th of March. On the 2d of February, the sum received amounted to no more than 13,431 dollars and 33 cents.

These last bills were drawn when the rapid rise of stock commenced, and were sold upon a credit of three months. It was a natural conjecture, that a rise so sudden and violent could not be of long duration; and that a declension would shortly succeed, which would afford an opportunity of purchasing with advantage, and render the intervention of public purchases advantageous in more than one respect. The event fully corresponded with the anticipation.

With regard to the bills drawn in April last, it has been stated that they were directed to be sold upon a credit of six months; that those drawn in July, August, and October were made payable, one moiety in two, the other moiety in four months. Hence, with a moderate allowance for delay in the sales, the period contemplated by the arrangement for the commencement of receipts was the month of October; that for their consummation, the month of February.

The inducements to the drawing of these bills have been stated. The present examination has relation merely to the question, whether the Bank of the United States, by premeditation of this Department, or subsequent omissions, had enjoyed any undue advantage from the deposits of the proceeds of the bills at the end of the year 1792, the point of time to which this inquiry has reference.

The statement which has been made, as to the time the moneys received to that period had remained in deposit, might alone be relied upon as a sufficient answer. If delinquency can be attached to the non-employment of one or two hundred thousand dollars for a few weeks, in the money operations of a nation, it implies a minuteness of responsibility which could never be encountered with prudence, and never will be fulfilled in practice. The distractions of attention, incident to a great and complicated scene of business, would alone disappoint the expectation.

But I have more than this to offer upon the present occasion. The opportunity for investing the moneys on hand, during the period in question, was not favorable. This was experienced by the Treasurer, in his endeavors to invest the fund arising from the interest on the purchased debt. There was no part but the deferred which could be had at all within the limits prescribed. Several indications of an approaching season, more advantageous for purchases, were discernible, and a better employment of the money than at the then prices presented itself to the option of the Legislature. This mode of employing it, formed, in my mind, part of a general plan for the regular redemption of the public debt, according to the right reserved to the Government. The one per cent. which might be saved was regarded as one means of constituting the proposed annuities.

Accordingly, on the 30th of November last, pursuant to a reference of the 22d of that month, and

connected with the plan of redemption contemplated, I submitted to the House of Representatives a proposition for applying the moneys in question toward discharging the debt which the Government owes to the bank, and upon which an interest of six per cent. is payable. This was manifestly, at the time of the proposition, the most profitable use that could be made of the fund. It has been already stated, that it would produce a saving, if extended to the whole two millions, worth to the Government an annual sum of 20,000 dollars—equal to a capital of 400,000 dollars.

This proposition tended to accelerate the employment of the moneys on hand, in a way the most beneficial to the Government; and consequently to shorten the duration of the advantage to the banks of holding them, by way of deposit. I submit it to the candor of the House, whether it be not full evidence that there was no disposition, on my part, to prolong to those institutions a benefit at the expense of the Government.

The proposition itself has not yet received the decision of the House.

Another ground upon which the suggestion of mismanagement and undue concession to the interest of the banks has been founded, respects the domestic loans which have been obtained. Those of them which have been made of the Bank of the United States are represented as unnecessary, tending to afford an emolument to that institution, for which the United States had no equivalent advantage.

It will conduce to a correct judgment of this matter, to resume a point already touched upon, and to add here the further illustrations of it which have been promised, to wit: that it ought to be a general principle to have constantly in the command of the Treasury, at its different places of deposit, a sum of about 500,000 dollars—a principle, too, which must be understood with reference to the beginnings of the quarters of a year, when the chief public payments are made and making.

The following observations will apply generally to the balances which appear at the commencement of each quarter. The greatest part of the interest for the preceding quarter will have been then deducted; but a part is always in a different situation.

The payment of interest upon a public debt, at thirteen different places, is an operation as difficult and complicated as it is new. In carrying it into execution, it is of necessity to lodge, for some time previous to the expiration of each quarter, at several of the loan offices, drafts of the Treasurer, for the sums estimated to be necessary at those offices, with blanks for the direction, and with liberty to the respective officers to dispose of them upon different places, as a demand accrues. This arrangement has an eye to two purposes: to avoid large previous accumulations at particular points; to facilitate the placing of the requisite sums, where they are wanted, without the transportation of specie. The allowing of the drafts to be disposed of on several places gives larger scope to a demand for them, and renders them more easily salable. But it is a consequence of this

that a part of the drafts are often not placed and brought into the accounts of the Treasurer, till some time after the expiration of the quarter. The fund for them of course appears on hand till the transaction is completed.

Connected with the circumstance of paying the interest upon the public debt at different places, is this further consequence. The transfers continually going on from one office to another render it impossible to know, at any moment when provision for the payment of interest is to be made, what sum is requisite at each place. Estimate must supply the want of knowledge; and, to avoid disappointment anywhere, the estimate must always be large, and a correspondent sum placed in the power of the commissioners. This circumstance alone requires an extra sum at the different places of payment, which ought not to be computed at less than fifty thousand dollars.

Again, the sums payable on account of the civil list, at the end of each quarter, which amount to about fifty thousand dollars, exclusive of what relates to the two Houses of Congress, are always in a course of payment for some time within the succeeding quarter. The fund for them consequently appears in the moneys on hand at the beginning of such quarter.

Again, there are constantly considerable arrears of existing appropriations, for which demands on the Treasury are at every moment possible; the times when they will be presented, and to what extent, at any given time, being in a great degree contingent.

The arrears for the different objects of the War Department can seldom be estimated at less than 150,000 dollars.

It is presumed to be a clear principle, that the Treasury ought to be always ready to face such arrears as may be claimed at every instant, or within any short period. An hour's distress or embarrassment to make good a public payment, already due, would be baneful to public credit. It has been a uniform maxim of the present administration of the Treasury never to risk such distress or embarrassment.

Independently, therefore, of the weighty consideration of being prepared (especially with a war on hand liable every moment to greater extension) for future casualties, the mere satisfaction of arrears ought to cause the constant reservation of a sum, that would be moderately stated at half the sum which it has been alleged ought always to be in the Treasury. It is to be observed, that it does not often happen that the current receipts to be expected in any immediately succeeding quarter are likely to exceed the probable expenditure of the quarter. The reverse is as often the case. Hence the greater necessity of maintaining a constant surplus.

There are still other considerations of weight, in a just estimate of the point in question.

The sum stated as necessary to be always in the command of the Treasury is never in fact at the seat of the Government, where far the greatest part of the public disbursements are to be made. The

depositories of it are the several banks from Charleston to Boston. The whole sum, therefore, can never be brought into immediate action for answering the claims upon the Treasury. No part can be properly viewed as in this situation, beyond New-York on the one side, and Baltimore on the other. Whatever part is more remote than these points ought not to be regarded as capable of being commanded in less time, upon an average, than sixty days, making allowance for the usual delays in the sale of bills, and the usual terms of credit, which experience has shown to be convenient.

In estimating the effective sum at any time on hand, in the Bank of the United States, it is necessary to be known, that a practice for the simplification of the Treasurer's bank account, begun with the Bank of North America, has been continued with the Bank of the United States, of this nature: The bills drawn by the Treasurer upon distant places, and deposited with the bank for sale, are immediately passed to his credit as cash, though they are allowed to be sold at credits from thirty to sixty days; and it is understood, that the proceeds are not demandable of the bank till they are collected. Hence the apparent sum in the Bank of the United States is always greater than the real; sometimes to a large amount.

The deductions to be made for this circumstance are shown in the Treasurer's half monthly statement of balances No. 5, beginning with the first of June, 1792, and ending with the first of January, 1793. The period begun with is that when the first

instalment of the loan from the bank was payable and has been selected for this reason.

The propriety of these deductions appears to have been objected to, by anticipation, on two grounds: one, that the bills deposited answer all the purposes of cash, and ought to be credited as such, on the receipt of them; the other, that "there is a regular and constant influx of moneys into the bank, by the operation of these bills, and that it is not very material whether a bill lodged in the bank to-day should be paid to-day, provided something like the same sum should be paid in consequence of a bill lodged in bank one or two months ago, and the bill of to-day should be paid one or two months hence."

Neither the one nor the other of these two positions is correct.

In no sense are the notes of the purchasers of the bills, which are taken payable in thirty, forty-five, and sixty days, the same thing to a bank as *cash*. It is evident it could not pay its own bills with those notes. In this primary particular, therefore, the comparison fails; neither could it make discounts upon the basis of those notes as *cash*. Because every discount gives a right to a borrower to call and receive in coin, if he pleases, the amount of the sum discounted. Notes are not coin, nor do they confer an equal power to pay. It is true that a bank will, in its discounts, make some calculation on expected receipts; but it can never consider them as equivalent to cash in hand, nor operate upon them in any degree to the same extent as upon equal sums in cash. If notes payable at future periods were

equivalent to cash, then every discount made by a bank would confer a faculty to make another for an equal sum; for there is always a note deposited for the sum discounted, and the power of discounting might, by the *mere exercise* of it, become *infinite*. An hypothesis of this kind will never be acted upon by any prudent directors of a bank, and could not be long acted upon without ruin to the institution. It is to be observed that the great profitable business of a bank, consists in discounting.

There is but one light in which the position under examination is in any degree founded. It is this, that, were it not for the instrumentality of the bills, the specie of the bank would be sometimes remitted for purposes which are answered by the bills. As often as this happens they are a substitute to the bank for cash, because they prevent equivalent sums from being carried away.

But this only sometimes happens. In numerous instances the enterprises to which the bills are subservient would not be undertaken at all were it not for the power of anticipation which the credits upon them afford. In many other instances the bills of the bank itself would be remitted instead of specie; in others, private bills would be substituted; in others, mutual credits between the merchants, to be liquidated in the course of mutual dealings, would supply the call.

Hence it is only true that Treasury bills *sometimes* answer the purpose of cash to the bank, whence it does not follow that they ought *always* to be considered and credited definitively as cash. It is also

true, though in a less degree, that notes deposited with the bank by individuals, for collection, sometimes answer to it the purposes of cash; but it will be readily perceived that it would be inadmissible, as a general rule, to receive and credit them as such.

The effect in both cases would be that the bank would make an *advance* of a present sum *without interest*, for a sum to be received in future.

An arrangement, indeed, has been for some time depending between the Bank of the United States and the Treasury, for securing to the Government the advantage of an immediate *absolute* credit for the bills deposited, as so much cash, to be coupled with some collateral accommodations to the bank. But it has not yet been carried into effect. The fact heretofore has been as stated, and the reasoning, to be just, must proceed on that basis.

The last of the two positions which have been cited has still less foundation than the first.

A sum received to-day, for a bill deposited two months past, can in no view be deemed a substitute for the amount of a bill deposited to-day *to be received* two months hence. It is to be remembered that the amount of the first bill was itself credited *at the time of the deposit*; and that the sum received to-day on that account can only *realize the antecedent credit*. It cannot represent or be an equivalent for the *future receipt* upon a different bill. To affirm that it could, is to make *one* sum the representative of *two*. The consequence of the reasoning would be that the Government ought to receive the money paid in to-day as a satisfaction, as well for the bill

deposited to-day, as for that which was deposited two months past.

Making the proper deductions on account of the bills, the amount of the effective cash in the banks of Philadelphia, New York, and Baltimore was, on the first of June, 587,091 dollars and 11 cents; in other banks there was then also the further sum of 9,591 dollars and 89 cents, making together 596,683 dollars. The amount of the effective cash on the second of July in the banks of Philadelphia, New York, and Baltimore was 217,234 dollars and 76 cents; there were then also in the other banks 184,998 dollars and 85 cents; making, together, 402,233 dollars and 61 cents. The amount of the effective cash on the first of October in the banks at Philadelphia, New York, and Baltimore was 244,394 dollars and 27 cents; there were then also in the other banks 145,420 dollars and 24 cents; making, together, 389,814 dollars and 51 cents.

The deductions for bills at the several periods were, June 1st, 157,508 dollars and 33 cents; July second, 220,900 dollars; October first, 31,100 dollars; so that, including the bills at that epoch, the whole sum in the banks at Philadelphia, New York, and Baltimore amounted to no more than 275,494 dollars and 27 cents; the sums in the other banks, to 145,420 dollars and 24 cents.

On the first of June there were paid on account of the debt to France 100,000 dollars; the day following, the first instalment of 100,000 dollars, on account of the loan from the bank, was received. On the 30th of June the second instalment of 100,000

dollars was received. These two instalments, amounting to 200,000 dollars, are included in the sum of 217,234 dollars and 76 cents, which, on the 2d of July, constituted the cash in all the banks at Philadelphia, New York, and Baltimore.

About the beginning of August another instalment on account of the loan of the bank was received, and on the 29th of September another, making, with the preceding ones, 400,000 dollars. This sum was involved in the balance in the Treasury on the first of October, which, it has been seen, did not exceed in the banks at and near the seat of the Government, including even unsold and unpaid bills, 275,494 dollars and 27 cents; and, comprehending the sums in all the other banks, amounted to no more than 420,914 dollars and 51 cents.

From the foregoing detail it appears that, excluding the 200,000 dollars received on loan of the Bank of the United States, in the month of June, there would have been, on the 2d of July, 1792, in the command of the Treasury at those places, from which immediate supplies may be derived, no greater sum than 17,234 dollars and 76 cents; that, excluding the 400,000 dollars, before that time received on loan of the same bank, there would have been on the 1st of October, 1792, an absolute deficiency within the scene described of 124,505 dollars and 73 cents; that the whole balance then in the Treasury, wheresoever deposited, amounted only to 420,914 dollars and 51 cents, and, excluding the loan of the bank, would not have been more than 20,914 dollars and 51 cents.

There must be some very radical error in my conceptions of the proper condition of the Treasury, if it was not in a sufficiently low state, during the whole period under consideration; and if it be not demonstrated that the moneys taken of the bank on loan were necessary for the public service, and were obtained with a due regard to economy.

There are circumstances which still further manifest the attention which has been paid to this point. The powers given to make loans for domestic purposes at different times, up to the 8th of May, 1792, comprehend an aggregate of 1,053,355 dollars and 74 cents; the sums which have been actually obtained upon interest amount to no more than 455,000 dollars.

The contract upon which the 400,000 dollars were obtained was made on the 25th of May, 1792, extending to 523,500 dollars, and contemplating the payment of 400,000 dollars of that sum by the bank, in equal monthly instalments, beginning on the 1st of June, and ending the 1st of September; the residue on the 1st of January, 1793.

Previous to the making of that contract there had been stipulated to be paid on account of the French debt, for the supplies of St. Domingo, 400,000 dollars, of which one fourth was paid in March, another fourth was payable on the 1st of June, another fourth on the 1st of September, another fourth on the 1st of December.

Particular causes render it an accommodation to the agents of France to postpone and subdivide the September instalment. A similar postponement

took place with regard to the instalment payable by the bank on the 1st of September, which was not demanded till the latter end of the month, and the remainder of the sum contracted for has not yet been demanded. The spirit of the precaution, which secured to the public the privilege of making or forbearing its calls, according to circumstances, needs no comment.

There remain to be noticed two circumstances, which will serve to throw additional light upon the conduct which has been observed with regard to the sums from time to time kept on hand. A comparison of the sums in the Treasury, during the years 1791 and 1792, will contradict the idea of any disposition to suffer the public moneys to accumulate, for the benefit of the Bank of the United States, and its subdivisions, and will at the same time indicate the general rule which has governed. In this comparison, it is necessary to recollect that larger operations were to be performed in 1792.

It may be objected, that the rule laid down has been on several occasions exceeded. How this has happened at certain periods has been explained. But there is a view of the subject which will throw further light upon it.

The sums which appear on hand at the end of any quarter are always larger on a *retrospective* than on a *previous* view. This proceeds from the following cause:

The judgment to be formed beforehand of the sums which will be received within any future period must of necessity be regulated by the returns in posses-

sion of the Treasury at the time the examination is made. As these come forward with more or less punctuality, that judgment will be more or less accurate; but, the appearance on the returns will always be short of the fact, because a certain number of returns, at any period of examination, will necessarily be deficient. What does not appear, must of course be essentially excluded from the calculation of the receipts to be expected within any near period. Because the extent of the sums which may have accrued, beyond those shown by the returns in hand, is unknown, and it is still more uncertain in what months the payments of them may fall; and the combinations of the Treasury, as to the means of fulfilling the demands upon it, ought to proceed as little as possible upon conjectures and uncertainties.

Monthly abstracts of the bonds taken at each port are the documents which serve to inform the Treasury of the progress of the receipts upon the duties of imports. From these a general abstract is made up once a month at the Treasury, for the information of the head of the Department, showing the amount payable in each month.

But very considerable differences appear from one month to another. The statement CZ, will serve as an illustration.

It contains a comparison of the sums shown by two successive abstracts, one of the 7th of November, the other of the 7th of December last, for a term of ten months, distributed into monthly subdivisions. The aggregate difference upon the whole

term between the two abstracts is 495,308 dollars and 73 cents; upon two months, beginning with November and ending with December, it is 151,789 dollars and 40 cents; upon a quarter beginning with January and ending with March, it is 174,471 dollars and 66 cents; upon a subsequent quarter, it is 81,055 dollars and 81 cents; upon a still subsequent quarter, it is 87,991 dollars and 86 cents.

Hence it is evident, that an arrangement founded upon the abstract of the 7th of November would suppose a receipt during any part of the time embraced by it, even the most proximate, considerably less than would appear by the abstract only one month later; and it must always happen, from this circumstance, that the actual receipts, while punctuality is preserved, will exceed the anticipations of them, and that greater balances will be found to exist at any given period than could have been beforehand safely calculated or acted upon. This circumstance, duly considered, will be a further and powerful justification of the conduct pursued generally, in relation to the moneys from time to time kept on hand, and particularly with regard to the loans of the bank. Low as the state of the Treasury appears to have been on a retrospective view, when the moneys upon those loans were called for, the prospect, at each time, must have presented the appearance of a less competent supply, or a greater deficiency, than was afterwards realized.

I am not sure but that I owe an apology to the House for taking up so much of its time in obviating the imputation of partiality or favoritism towards

the banks; the aspect under which I view it admonishes me, that I may have annexed to it greater importance than was intended to be given to it by its authors.

That a disposition friendly to the accommodation of those institutions, as far as might be consistent with official duty and the public interest, has characterized the conduct of the Department, will not be denied.

No man, placed in the office of the Secretary of the Treasury, whatever theoretic doubts he may have brought into it, would be a single month without surrendering those doubts to a full conviction, that banks are essential to the pecuniary operations of the Government.

No man, having a practical knowledge of the probable resources of the country, in the article of specie (which he would with caution rate beyond the actual revenues of the Government), would rely upon the annual collection of 4,500,000 dollars, without the instrumentality of institutions that give a continual impulse to circulation, and prevent the stagnation to be otherwise expected from locking up from time to time large sums for periodical disbursements; to say nothing of the accommodations, which facilitate to the merchant the payment of the considerable demands made upon him by the Treasury.

No man, practically acquainted with the pecuniary ability of individuals, in this country, would count upon finding the means of those anticipations of the current revenue for the current service, which have

been, and will be necessary, from any other source than that of the banks.

No prudent administrator of the finances of the country, therefore, but would yield to the disposition, which has been acknowledged, as alike essential to the interest of the Government, and to the satisfactory discharge of his trust; a disposition which would naturally lead to good offices, within the proper and justifiable bounds.

After the explanation which has been offered, to manifest the necessity and propriety of the loans made of the bank, it can scarcely be requisite to enter into a refutation of the process by which it has been endeavored to establish that the Government pays seventeen per cent. upon those loans. The state of the Treasury rendered it expedient to borrow the sums which were borrowed; they have been duly received, and the rate of interest stipulated upon them is five per cent. The Government then pays upon them five per cent. and no more.

The history which was given, in my last letter, of the course and situation of the foreign fund, proves that the supposition from which the inference, of paying seventeen per cent. upon the domestic loan, has been drawn, is erroneous. The balances on hand, at the respective periods in question, are the residues of the moneys which had been received from every source, including the loans, foreign and domestic.

But if the supposition which appears to have been made had been true, it was still impossible that seventeen per cent. could have been paid. By no construction can the rate be extended beyond ten.

The mean interest of the money borrowed abroad, including charges, is five per cent.; the interest stipulated to be paid on the loan from the bank is also five; the sum of the two is ten. It is immaterial for what purpose the foreign fund was obtained, whether to pay to France or to purchase the debt; the worst consequence that can result is *double* not *treble* interest. The interest payable to France is payable for moneys *borrowed* and *spent* during the war. It can never be truly said, that that interest is now payable on any existing fund, whether borrowed in Holland or borrowed in the United States, or borrowed there and re-borrowed here. It can never serve to make an addition to the cost or charges of any such fund. 'T is payable upon one long since *procured* and *used*.

But it is not obvious how the supposition came to be entertained, that all the moneys drawn here from the foreign fund had been borrowed for the payment of the debt to France. The presumption would seem to have been more natural, that they had been principally, if not wholly, introduced with a view to purchases of the debt, and consequently had a more special reference to the act authorizing a loan for that purpose. And the fact is, that this was the destination of far the greatest proportion of the sums drawn for. It has been stated that a part had an eye to the supplies to St. Domingo, and that another part was introduced with a view to the payment of the foreign officers.

The additional observations to which I shall request the attention of the House will apply to the

course and state of the sinking fund, concerning which I transmitted with my last communication three statements, numbered I., II., III.¹

To give a more collected view of this part of the subject, it may be of use to include here a recapitulation of some ideas which have been stated in other places.

It is the course and practice of this Department, for all public moneys, from whatever source proceeding, to pass into the Treasury, and there form a common mass, subject, under the responsibility of the officers of the Department, to the dispositions which have been prescribed by law.

The surplus at the end of the year 1790, appropriated to the sinking fund, amounting to 1,374,656 dollars and 40 cents, went, as it was received, into the Treasury.

All the proceeds of the bills drawn upon the foreign fund prior to April, 1792, except the sum of 177,998 dollars and 80 cents, left in deposit with the Bank of North America for reasons which have been explained, passed from time to time into the Treasury. The whole amount of the sums paid in is 907,294 dollars and 23 cents.

The proceeds of the bills drawn for, in and subsequent to April, 1792, have not yet passed into the Treasury, for reasons which have been likewise assigned. It would have been done before this time, as far as the receipts had gone, but for the present inquiry, which temporarily suspended it. I thought it best to make no alteration in the state of things as

¹ For these statements see *State Papers*, vol. i., pp. 210, 211, 212.

they stood when it began, at least till all the information desired had been given. Measures will now be taken for a settlement of the accounts, and for a transfer of the proceeds. The whole amount of those bills, paid and unpaid, including an estimated sum of interest, will be, as heretofore stated, 1,220,476 dollars and 10 cents.

The whole amount of the bills drawn is 2,305,769 dollars and 13 cents.

Out of the sinking fund, composed of the surplus of the revenue to the end of 1790 and the proceeds of the foreign bills, there were issued from the Treasury and expended in purchases, to the end of 1792, 957,770 dollars and 65 cents.

For reasons which have been stated, it was finally deemed advisable to place those purchases wholly to the account of the surplus of 1790.

Consequently, there remained on the 1st of January of the present year 416,885 dollars and 75 cents of the above-mentioned surplus unapplied to purchases; and the whole of the foreign fund, except the sum of 726,000 dollars paid and reserved to be paid for the use of the colony of St. Domingo, and the sum of 191,316 dollars and 90 cents paid and reserved to be paid to the foreign officers, became free for future application. The balance of the proceeds of the bills, after deducting for those reservations, is 1,388,452 dollars and 22 cents.

Since the 1st of January, 1793, there have been issued, on account of the foreign fund, for purchases, 284,901 dollars and 89 cents.

The practice has uniformly been not to separate

any of the moneys belonging to the sinking fund from the common mass of the moneys in the Treasury, but in proportion to the occasions of investing them in purchases.

Hence the sum of 957,770 dollars and 65 cents, issued previous to the present year, and the sum of 284,901 dollars and 89 cents, issued during the present year, making, together, 1,242,672 dollars and 54 cents, are all the moneys which have been ever separated from the common mass of the Treasury for the purpose of the sinking fund; the whole of which, except 49,282 dollars and 74 cents, has been actually expended in purchases.

The unapplied sum remains deposited in the Bank of the United States, except a small balance of 61 dollars and 76 cents, in the hands of William Heth.

From the above rule, the part of the sinking fund arising from interest on the debt extinguished by purchases or otherwise is to be excepted. The practice hitherto has been to include this interest in the general dividend of each quarter, and the warrant issued to the cashier of the bank for paying it. The statement No. 3,¹ accompanying my last letter, shows the application of this fund hitherto.

The law directs that this fund shall be invested within thirty days after each quarter. This provision began to take effect on the 1st of July last.

But the investments were not made within the respective times prescribed. This proceeded partly from the state of the market, and partly from the regulations adopted by the commissioners, who were

¹ For statement No. 3, see *State Papers*, "Finance," vol. i., p. 212.

the Secretary of State, the Attorney-General, and the Secretary of the Treasury.

Their regulations, applying to the two first quarters, limited the prices to certain rates, and prescribed the mode of sealed proposals. The Treasurer was appointed agent for the commissioners.

The proposals, with regard to the first quarter, were receivable till the 28th of July inclusively; none were offered, as the Treasurer reported to me, and nothing was done.

The experiment of sealed proposals was again tried the second quarter, with somewhat more, though with but little, success. The restriction to this mode of proceeding was rescinded on the last day of the thirty allowed for purchasing, and some further purchases were made, but the whole sum invested was only 25,969 dollars and 96 cents.

The residue of this fund, except some small sums noted at foot of statement No. 3, was in January past.

The unapplied part of the surplus of 1790 having been expended in aid of the *receipts* of 1791, according to the provision which was made for that purpose, will remain suspended until the future *receipts* shall so far exceed the current *disbursements* as to produce a surplus for replacing it.

In computing the amount of the unapplied foreign fund, it is necessary to take into the account the payments made from it during the years 1791 and 1792 on account of the interest of the foreign debt.

Provision having been made for paying this interest out of the domestic revenues, the sums which have been paid on that account from the foreign

fund are to be considered in the same light as if they had been transferred here by drafts.

The amount paid at Amsterdam is 1,633,189 guilders and two stivers, equal, at $36\frac{4}{11}$ ninetieths per guilder, to 659,874 dollars and 34 cents.

There will be additions to be made, which are not at present ascertained.

Adding this sum to the proceeds of the bills, and deducting the sums paid and to be paid for St. Domingo and the foreign officers, and those applied to purchases during the present year, there will remain a sum of 1,763,424 dollars and 68 cents, subject to a future application.

Of this sum 1,715,098 dollars and 11 cents will be properly applicable to the purchase of the debt. But circumstances may render it eligible to appropriate a part of it toward the discharge of the foreign debt.

From the plan which has been pursued, it is also liable to this application.

I have the honor to annex to the statements heretofore transmitted those in the printed schedules marked A, B, and C.¹

A exhibits the relative state of *revenue* and *appropriations* to the end of 1792; B, the relative state of *appropriations* and *expenditures* to the same period, showing the balance unsatisfied of each head of appropriation; C applies these statements to an explanation of the demands or charges upon the excess of income beyond the disbursements to the end of 1792.

¹ For A, B, and C see *State Papers*, "Finance," vol. i., pp. 219 to 222.

In addition to these are two statements, marked D and E.

D, showing what proportion of the balances unsatisfied of the several appropriations are likely to be real expenditures, and what part are not likely to be so. In this, however, in several instances, probability must guide, the nature of the thing not admitting of certainty.

E, showing the cash on hand upon the first of January last, and likely to be received from that day to the first of April next, and the sums paid and payable during that period.

The result, founded upon facts, contradicts very essentially that statement which aims at showing the ability of the Treasury, besides defraying the current expenses of the quarter, to pay off two million dollars to the bank, still leaving a balance in favor of the Treasury of 664,263 dollars and 54 cents.

It shows that, after satisfying the demands for which the Treasury is bound to be prepared, including a payment to the bank of only one tenth part of the two million dollars of which the statement alluded to supposes the complete payment, there would remain a balance in favor of the Treasury of no more than 664,180 dollars and 89 cents.

It could answer no valuable purpose to delay the House with a particular examination of the various misapprehensions which have led to a result so different from the true one. It will be sufficient, as an example, to state a single instance. It is assumed, as an item in the calculation, that a sum of a

million of dollars will come into the Treasury by the first of April, on account of the revenue of the *current* year, while the probability is, that the sum received may not exceed ten thousand dollars; this presumption of a million is evidently founded upon two mistakes. 1st. It proceeds on the basis of an annual revenue of four millions of dollars, and supposes this sum equally distributed between the different quarters of the year, a million to each quarter, when, in fact, there are two seasons of the year incomparably more productive than the other parts of it, viz.: those portions of the spring and fall which are embraced by the second and third quarters; the first and fourth being far less productive. 2d. It supposes all the duties which accrue are *immediately paid*, whereas the cases of prompt payment are confined to those in which the duties on particular articles, imported in one vessel, by one person or co-partnership, do not exceed fifty dollars; in all other instances, a credit of not less than four months is allowed, which carries the payment on the importations, upon the very first day of the quarter, a month beyond the expiration of it.

If the whole amount of the duties which accrued during the first quarter of 1792, in cash and bonds, was no more than 307,163 dollars and 84 cents, adding one seventh for the additional duties, it ought, by analogy, to be during the first quarter of the present year 322,472 dollars and 94 cents; less, in totality, than the sum which it has been computed would be actually in money in the Treasury, by 677,527 dollars and 6 cents; and less, by the whole

million, nearly, than will probably be in money in the Treasury on that account. With perfect respect,

I have the honor to be, sir,

Your most obedient and most humble servant,

ALEXANDER HAMILTON,

Secretary of the Treasury.

The Honorable the Speaker of the
House of Representatives.

A x.—Market-prices of public stocks, taken from actual purchases and sales.

B y.—Prices of the public stocks, taken from the *Gazette of the United States*.

C Z.—Comparative statement of bonds for duties becoming due from November, 1792, to September, 1793, inclusive, as per monthly abstracts thereof, taken 7th November and 7th December, 1792.

D.—Statement showing the sums of appropriation, to the end of the year 1792, which will probably not be required to satisfy the same.

E.—Probable state of cash, from the last of Dec. 1792, to the 1st of April, 1793.—See *State Papers*, "Finance," vol. i., p. 230.

[In *State Papers*, "Finance," vol. i., page 281, may be seen a Report of a Committee of the House of Representatives, on "The Condition of the Treasury," explanatory of the matters to which this and several of the preceding papers relate.]

OBSERVER ¹

March, 1793.

Among the observations which have appeared as containing the debates in Congress respecting the official conduct of the Secretary of the Treasury, Mr. Findley is represented as having made the following assertions: "That the Secretary of the Treasury had *acknowledged* that he had not *applied* the money borrowed in Europe *agreeably to the legal appropriations of the President*. That he had *acknowledged* his

¹ The speech of Mr. Findley, here referred to, was made March 1, 1793, and this reply probably appeared immediately afterwards, but I have not been able to discover in what newspaper it was published.

having drawn to this country, and applied in Europe to uses for which other moneys were appropriated, three millions of dollars. That he had *acknowledged* his having drawn from Europe more money than the law *authorized him to do*. That he was influenced to do so by motives not contemplated by the law, and had either applied it, or drawn it from Europe, with the design of applying it to uses not authorized, and that he had *broken* in upon the fund appropriated for the discharge of the French debt."

Before I read this speech I had carefully perused the different communications made by the Secretary of the Treasury to the House of Representatives, and after reading it I was led to revise them. The result has been that I have found all these assertions attributed to Mr. Findley either direct untruths or palpable misrepresentations, and I challenge Mr. Findley or any of his friends to produce the passages which will warrant them. The truth is, that Mr. Findley has palmed upon the Secretary his own reasonings and inferences for points conceded by him. The *commentary* has been substituted for the *text*.

OBSERVER.

HAMILTON TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

TREASURY DEPARTMENT, December 16, 1793.

SIR:

It is known that in the last session certain questions were raised respecting my conduct in office, which, though decided in a manner the most satisfactory to me, were nevertheless unavoidably, from

the lateness of the period when they were set on foot, so accelerated in the issue, as to have given occasion to a suggestion that there was not time for a due examination. Unwilling to leave the matter on such a footing, I have concluded to request of the House of Representatives, as I now do, that a new inquiry may without delay be instituted in some mode, the most effectual for an accurate and thorough investigation; and I will add, that the more comprehensive it is, the more agreeable will it be to me.

I cannot, however, but take the liberty of assuring the House that a like plan to that which was pursued in the last session will never answer the purpose of a full and complete inquiry, while it would lay on me a burthen, with which neither a proper discharge of the current duties of my office, nor the present state of my health, is compatible. The unfavorable effect upon the business of the Department of the very considerable portion of my time which was engrossed by the inquiry of the last session has not yet entirely ceased.

With perfect respect, I have the honor to be, etc.

LOAN

Communicated to the House of Representatives, February 25, 1794.

Mr. Sedgwick, from the committee appointed to report whether any, and what, sum may be necessary to be loaned for the purpose of carrying on the public service for the year one thousand seven hundred and ninety-four, made the following report:

That, in their opinion, it is expedient that the President be authorized to borrow, on the credit of the United States, a sum not exceeding one million dollars, if, in his opinion, the public service shall require it.

PHILADELPHIA, February 22, 1794.

SIR:

A committee of the House of Representatives, having in charge "to report whether any, and what, sum may be necessary to be loaned for the purpose of carrying on the public service for the year 1794," have directed me to request of you answers to the following questions.

1. Whether money collected on account of the United States, and deposited in banks, is, from the time of deposit, considered as in the Treasury.

2. Are any, and, if any, what, means necessary to subject money, so deposited, to the control of the Treasurer?

3. In case money, so deposited, is not considered as in the Treasury from the time of deposit, who is, from that time, until it passes into the Treasury, responsible to the United States?

4. Is any money now so deposited, and, if any, is the probable amount such as to render a present provision for a loan inexpedient or unnecessary?

With much esteem, etc.

THEODORE SEDGWICK.

The Honorable the Secretary
of the Treasury.

TREASURY DEPARTMENT, February 25, 1794.

SIR:

The following are answers to the questions stated in your letter of the 22d instant, viz.:

Answer to question the first.

All moneys collected on account of the United

States, and deposited in banks, *to the credit of the Treasurer*, are considered as in the Treasury *from the time of deposit*. The steady course with regard to the standing revenue is, that the money deposited in banks passes immediately to the credit of the Treasurer. But it is necessary, to discharge the payers, that receipts of the Treasurer should be endorsed upon warrants signed by the Secretary, countersigned by the Comptroller, and registered by the Register, which is the course regularly observed.

Answer to question the second.

After moneys are deposited in banks to the credit of the Treasurer, they are in his control, though they may not legally be disbursed but upon warrants of the above description. If deposited without passing, in the first instance, to the credit of the Treasurer, the means used for placing them in his custody and disposal are warrants of the like kind.

Answer to question the third.

In respect to any moneys of the United States deposited in banks, but not passed to the credit of the Treasurer, the banks are considered as directly responsible to the United States; in the case of deposits to the credit of the Treasurer, they are responsible, in the first instance, to him; ultimately, to the United States.

Answer to question the fourth.

Only two cases are recollected, in which moneys of the United States may be considered as having been deposited in bank, without passing, in the first instance, to the account of the Treasurer. These relate—

1. To the proceeds of foreign bills sold for the Government, and received by the bank (all accounts of which are finally closed).

2. To the sum of two hundred thousand dollars, *being* the only sum now so deposited, which arises from the last loan had of the bank. It is left (subject to the eventual decision of the Legislature) as an offset against the second instalment of the two-million loan from the bank. The effect of the operation will be this: An interest of six per cent., payable to the bank, upon the instalment, will be extinguished, from the 31st of December last, by an interest of five per cent., payable to the bank, upon the sum borrowed of itself, and left in deposit. And it has been endeavored, thereby, to preserve consistency and regularity in the arrangements of the Treasury. The first instalment, by leaving in deposit an equal sum of the proceeds of foreign bills, was considered as effected on the 31st of December, 1792, though there was not power to consummate the payment till some months after. Hence it becomes regular, that each succeeding instalment should be paid on the last of December of each year. The *provisional* measure thus adopted was the only expedient in the power of the Treasury to reconcile, as far as practicable, considerations relative to the public interest and credit, with legality of procedure. Neither the sum in deposit, on the one hand, nor the instalment payable to the bank, on the other, is brought into the probable state of cash, lately presented to the House of Representatives, because they balance each other, and leave the result the same.

There are no existing sources from which moneys can come into bank, on account of the United States, except from the proceeds of the revenue, which, as far as known, are comprised in the statement before the House of Representatives. So that there is no resource, but a loan, which can supply the deficit of a receipt, in the course of the present and succeeding quarter, compared with the expenditure. Without one, a failure in the public payments is inevitable.

If what has been said should not give the committee all the light they desire, it is imagined that personal explanations would lead more fully to their object, than the course of written interrogatories and answers, which can only partially embrace the subject, and may procrastinate a right understanding of it. I am, sir, etc.,

ALEXANDER HAMILTON.

THEODORE SEDGWICK, Esq.,
Chairman of a Committee.

HAMILTON TO WASHINGTON

March 24, 1794.

SIR:

A committee of the House of Representatives, appointed to inquire into the state of the Treasury Department, is charged, among other things, to inquire into the authorities from the President to the Secretary of the Treasury respecting the making and disbursement of the loans made under the acts of the 4th and 12th August, 1790. You will perceive by the inclosed copy of a paper of this date,

delivered to the committee, the opinion I entertain of the proper limits of a legislative inquiry on that subject.

But, in the event of a determination that the inquiry should be general, it becomes proper to fix with the President the true view of facts.

The real course of the transaction has been this. Before I made the disposition of any loan, I regularly communicated to the President my ideas of the proper disposition, designating how much it would be expected to pay to France—how much to draw to the United States—and always received his sanction for what was adopted and afterwards carried into execution. The communication and the sanction were verbal whenever the President was at the seat of government. In a case of absence, they were in writing. This will appear from my letters of the 10th and 14th April, 1791, and from the President's answer of the 7th of May, following. My letters of the 29th July and 22d September, 1791, and of the 27th August and 22d September, 1792, contain a further illustration of the general spirit of proceeding in the case, in regard to the consultation of the President.

The sanctions of the President were sometimes expressly, and always, as I conceived, in their spirit, founded in a material degree in the confidence that the measures proposed were guided by a just estimate on my part of circumstances which, from situation, must have been best known to me, and that they would be always in conformity to the law.

With the most perfect respect, etc.

HAMILTON TO A COMMITTEE OF CONGRESS

April 1, 1794.

In the course of the present examination, respecting the point of authority under which any portion of the moneys borrowed abroad had been drawn into the United States, the Secretary of the Treasury did make the following question:

“I ask the committee appointed to inquire into the state of the Treasury Department, whether they expect from the Secretary of the Treasury the production of any authorities from the President to him, in reference to the loans made under the acts of the 4th and 12th of August, 1790, except such as regard merely the making of said loans, and the application and disbursement of such part of the proceeds of those loans as were to be disbursed in foreign countries.

“I object to the being required to produce any other authorities than those excepted, for the following reasons, viz.:

“1st. Because it results, from the constitution of the Treasury Department, that all receipts and expenditures of public money, within the United States, must pass through that Department, under the sanction of warrants from the Secretary, countersigned by the Comptroller, and registered by the Register; consequently, whenever a loan is made, either abroad or at home, on account of the United States, destined for disbursement within the United States, it becomes, *ex officio*, the province of the Treasury Department to draw the proceeds of such

loan into the Treasury, and to disburse from thence, according to law.

“2d. Because, when it once appears that the President has constituted the head of a department his agent, for any general purpose, intrusted to him by law, all intermediate authorities from the President to the agent, being conformable with law, are to be presumed. The proper inquiry for the Legislature must be, whether the laws have been duly executed or not; if they have been duly executed, the question of sufficiency or deficiency of authority, from the President to his agent, must be, to the Legislature, immaterial and irrelevant. That question must, then, be a matter purely between the President and the agent, not examinable by the Legislature, without interfering with the province of the Chief Magistrate, to whom alone the responsibility is.

“All authority from the President to do any thing not warranted by the laws of the 4th and 12th of August, is disclaimed. A complete responsibility for the due and faithful execution of those laws is admitted to rest on the head of the Department. He claims no protection from any instruction or authority of the President, for any thing which may have been irregular or wrong, but he respectfully conceives that the competency of his authority from the President to do, what being done, is conformable with the laws, is not, under the circumstances of the case, a proper object of legislative inquiry.”

Upon the consideration of which question, the Committee came to the following resolution:

“*Resolved*, That the Secretary of the Treasury be requested to state to the committee, by what authority any portion of the moneys borrowed abroad have been drawn to the United States.”

In consequence of which resolution the Secretary of the Treasury laid before the committee a paper in the following words:

HAMILTON TO A COMMITTEE OF CONGRESS

April 1, 1794.

Principles and course of proceeding with regard to the disposition of the moneys borrowed abroad, by virtue of the acts of the 4th and 12th of August, 1790, as to the point of authority.

It was conceived by the Secretary of the Treasury to be a clear principle, resulting from the spirit of the act constituting the Treasury Department, and from the several provisions of that act, collectively considered, that all public moneys once obtained, and destined for disbursement within the United States, came, of course, under the direction of the officers of that Department, according to their respective functions, and that no special authority extrinsic to the Department was, in strictness, necessary to enable them to draw money, from whatever source originating, into the Treasury, or to issue them thence for the purposes designated by law.

It was also conceived by him to be, though a less clear principle, one most agreeable to the true spirit of the constitution of the Department, as well as essential to the preservation of order and due

accountability in the money transactions of the country, that even moneys procured abroad, and to be disbursed abroad, were, as to their application, to be under the direction of the same Department.

Under the influence of these principles, thus entertained with different degrees of assurance (the President having determined to place the procuring of the loans under the direction of the Secretary of the Treasury), the following course of proceeding was pursued:

The Secretary obtained from the President, in the first place, a general commission to him to make the loans authorized by the two acts of the 4th and 12th of August. A copy of this commission was communicated to the House of Representatives in the last session. No. 1 is dated the 28th of August.

He also obtained from the President an instruction, dated same day, to guide and justify him—1st, with regard to the person to be employed in Europe in negotiating the loans; 2d, with regard to the extent to which the loans under the first act, and payments on account of the foreign debt, should be carried, at all events, exclusively of the consideration of the advantageousness of the terms of the loans.

Nevertheless, from the special connection of the President with the subject, owing to the authority to borrow being immediately vested in him; from the circumstance of the existence of a particular discretion to be exercised by the President as to anticipated payments of the foreign debt, and from the official relation of each head of a department to the

President, the Secretary of the Treasury considered it as his duty, from time to time, to submit the dispositions of each loan to the consideration of the President, with his reasons for such disposition, and to obtain the sanction of the President previous to carrying it into effect, which was always had.

The communications to the President and his sanctions were for the most part verbal. Two exceptions appear, from letters (herewith shown) of the Secretary to the President, of the 10th and 14th of April, and 22d of September, 1791, and from the President to him of the 7th of May, 1791, relating to a case of absence from the seat of government. These letters are evidence of the course and spirit of proceeding.

It is to be understood that the sanctions of the President were always bottomed upon the representations of the Secretary, and were always expressly or tacitly qualified with this condition, that "whatever was to be done was to be agreeable to the laws."

Whereupon the committee came to the following resolution:

Resolved, That it would be satisfactory to the committee, that the papers submitted to them April 1, 1794, by the Secretary of the Treasury, respecting the point of authority under which moneys borrowed abroad have been drawn to the United States, should be presented to the President of the United States, and that the Secretary should obtain from him, concerning the same, such declaration as the President may think proper to make."

WASHINGTON TO HAMILTON

Tuesday, April 8, 1794.

DEAR SIR:

Annexed to your statement of "Principles and Course of Proceedings," I have given the certificate required.

I am, yours always,

GEO. WASHINGTON.

WASHINGTON TO HAMILTON

PHILADELPHIA, April 8, 1794.

SIR:

I cannot charge my memory with all the particulars which have passed between us relative to the disposition of the money borrowed. Your letters, however, and my answer, which you refer to in the foregoing statement, and lately reminded me of, speak for themselves, and stand in need of no explanation.

As to verbal communications, I am satisfied that many were made by you to me on this subject; and, from my general recollection of the course of proceedings, I do not doubt that it was substantially as you have stated it in the annexed paper, and that I have approved of the measures which you from time to time proposed to me for disposing of the loans, upon the condition that what was to be done by you should be agreeable to the laws.

I am, etc.

HAMILTON TO WASHINGTON

PHILADELPHIA, April 9, 1794.

SIR:

I have analyzed the declaration which you have been pleased to make upon the copy of the paper of

the first instant, delivered by me to the Committee of Inquiry into the State of the Treasury Department, and find, with regret, that the terms used are such as will enable those who are disposed to construe every thing to my disadvantage to affirm, "that the declaration of the President has entirely waived the main point, and does not even manifest an *opinion* that the representation of the Secretary of the Treasury is well founded."

To this it would be added, that the reserve of the President is a proof that he does not think that representation true, else his justice would have led him to rescue the officer concerned even from suspicion on the point.

That this will be the interpretation put upon your declaration I have no doubt; and, in justice to myself, I cannot forbear to make this impression known to you, and to bring the declaration under your revision.

I am the more certain that this construction will be put upon the fact, from what has heretofore taken place. In the course of the discussion of the last session, an argument of this kind was, in private, urged against me: "If Mr. Hamilton had really acted by the authority of the President, or in due communication with him, would not the President take some method, either directly to Mr. Madison, or through Mr. Jefferson or Mr. Randolph, to make known to him that this ground of accusation did not exist? His not doing it, which may be inferred from Mr. Madison's urging the point, is a proof that there was no co-operation on his part."

In addition to this, I have learnt, from an authentic source, that a particular gentleman, supposed to possess good opportunities of information, has intimated, in a manner to induce a belief of its having come from you, that it never was your intention that any of the loans which were made should have had reference to the act making provision for the reduction of the public debt, and that you never knew any thing of the operation while it was going on.

Under all that has happened, sir, I cannot help entertaining, and frankly expressing to you, an apprehension that false and insidious men, whom you may one day understand, taking the advantage of the want of recollection, which is natural when the mind is habitually occupied with a variety of important objects, have found means, by artful suggestions, to infuse doubts and distrusts very injurious to me.

My consciousness of what has been the real tenor of my conduct, and my conviction of the fairness and rectitude of your mind, compel me to this conclusion.

Upon this, as upon every other occasion, my desire is to encounter, directly and without detour, whatever embarrassment may stand in my way. If, contrary to what I understood from Mr. Lear, during the discussion of the matter in Congress, and inferred from the late conversations with you, the affair does not stand *well* in your mind, I request the opportunity of a full and free conference on the subject, to recapitulate and go over all the circum-

stances which have occurred, in the hope of recalling to your memory what may have escaped it, and with a wish to abide the result in an explicit form—that is, by a declaration which shall render the main fact unambiguous, or shall record the doubt.

As, on the one hand, I expect what is due to the situation, so, on the other, I seek no palliation of delinquency, no cover for any defect of conduct.

The situation is indeed an unpleasant one. Having conducted an important piece of public business in a spirit of confidence—dictated by an unqualified reliance, on the one hand, upon the rectitude, candor, and delicacy of the person under whom I was acting; on the other, by a persuasion that the experience of years had secured to me a reciprocal sentiment (whatever imperfections it may have otherwise discovered); and by the belief, likewise, that, however particular instances might be forgotten, the general course of proceeding in so important an affair could not but be remembered—I did not look for a difficulty like that which now seems to press me. Knowing, too, that there existed in my written communications with the President (not only those which have been specified, but others), so many direct and indirect indications of what was truly the course pursued, I still less apprehended a difficulty of that nature when the occasion for explanation should occur.

Not seeking to escape responsibility for any improper execution of the laws—if any has happened—I do not imagine that want of immediate authority from the President to do what they would justify,

would be suffered to remain (the appeal being made to him) a topic of objection to my conduct.

In the freedom of these remarks I flatter myself, sir, that you will perceive nothing but that just sensibility which a man of honor, who thinks his veracity exposed to question, ought to feel; and that you will be persuaded I continue yet to retain, undiminished, all that respect which a long-established conviction of the existence of an upright and virtuous character ought to inspire.

With this sentiment, I have the honor, etc.

HAMILTON TO WASHINGTON

TREASURY DEPARTMENT, April 25, 1794.

I beg leave, by way of explanation, to submit the grounds of my opinion, that the President may vary his instructions of the 8th of August last, in reference to the application of the last loan obtained in Holland.

A summary of the preceding transactions will serve to throw light upon the subject.

The President, by his commission of the 28th of August, 1790, gave full power to the Secretary of the Treasury to make the whole of the two loans contemplated by the acts of the 4th and the 12th of August.

When, in the beginning of June last, certain considerations rendered it, in my judgment, expedient to obtain a further loan; I concluded to address myself to the President, not for want of power to proceed in the business, but to obtain the sanction

of his opinions and instructions as to the eligibility of the measure. This will appear from my letter of the third of that month.

After some explanatory communications, I received from the President his letter of the 27th of July, informing me of the shape the business had taken in his mind.

On the basis of that letter, I prepared the instructions of the 8th of August, which I considered merely as directions to me, from the President, in the execution of the general power of the 28th of August, 1790, to be understood in connection with the letter of the 27th of July.

The proposition in my report of the 15th of June was, that the proposed loan should be made upon the authority of both acts, and the letter of the President just mentioned precisely declares he did not intend by separate instructions to prevent the loans from being carried on without distinction in Holland.

Accordingly, I sent no new powers for making a further loan, but merely an *additional instruction* to make a loan of three millions of florins, on the basis of the former powers. This additional instruction, too, made no special reference to either act, but left the matter to proceed as before *without distinction*.

The consequence will be that the loan, as in all preceding cases, will be founded upon both the acts. I send for your inspection all the contracts heretofore made, as the evidence of what will be the form of the one not yet forwarded; all of which expressly and indiscriminately refer to both the acts.

The inference is, that according to the contract

itself (the formal obligatory act), the loan will be placed upon the joint foundation of the two acts, equally applicable, therefore, to the purpose of either.

This being the case, it is in my mind a clear proposition that the money remains in that state liable to be applied according to either or both the acts, till one of two things happens—an actual investment, or the being carried in the books of the Treasury specifically to the account of the particular appropriation.

It appears to me that there are but two circumstances which can attach irrevocably a similar fund to a particular destination—either its being so attached in its original creation by the formal obligatory act (to wit, the creation of the loan), or its having received in the Treasury its ultimate form by being carried to the account of the particular appropriation. This last, when the fund in its creation is liable to different destinations, is, as I suppose, the only thing which consummates and fixes the precise destination. It is the record, so to speak, of the sentence or *direction* of the law, ascertaining its application.

If this position be as solid as I believe it to be, it will follow that all collateral instructions of the President intervening between his original power to make the loan and the final application of the loan are mere directions to the Secretary of the Treasury, binding on him until they are revoked, but revocable at pleasure by the President until they are definitely acted upon at the Treasury.

This is my view of the subject, for troubling the President with which I have no other motive than merely to explain the ground of an important opinion.

I proceed now to execute the order of the President contained in his letter of yesterday.

The embarrassments which, I suppose, may possibly arise from fixing at this time the destination of the fund, are connected with the following considerations:

The laws, except by the means of loans, make no provision for the payment of any part of the *principal* of the foreign debt. Instalments of the principal of the Dutch debt are falling due yearly; the same is the case of the debt to France, deferring the computed anticipations, as has been heretofore done. Perhaps it may become the policy of the country, in a short time, to accelerate in the latter case.

The state of European affairs forbids a *reliance* on further loans there. The actual situation of the United States (and, *a fortiori*, its possible one) is likely to call for all the aid of domestic loans which is obtainable for domestic purposes. This resource, therefore, could not be depended upon as a substitute for foreign loans for foreign objects; still less, and for the same among other reasons, could additional taxation be counted upon.

Our credit, therefore, and in certain events our security in a degree, may depend on retaining a part of the resource in question in a situation to come in aid of both. Our credit entirely, and our security in a very small degree, are of far greater consequence

than the savings to be made by the investment of 1,200,000 dollars in purchases.

Past experience admonishes to caution. The last loan of a million of florins, and the present one of three millions, are in some sort accidents. Antecedent intelligence has in each case forbidden the expectation of either, as the President will see from the letters herewith transmitted. Had these not happened, and had the moneys originally drawn to this country for purchases been hastily so invested, our credit would in all probability have been lost; and things which we believe it of importance to have been done would have been impracticable.

A considerable defalcation of revenue this year seems probable. I feel, in a manner not less interesting to my own reputation than to the public interest, the advantage of extensive purchases at the present juncture. And though I think the opportunity will not escape, it enters into the plan which I should approve—to proceed gradually and circumspectly in availing ourselves of the advantage. But I do not incline either wholly to tie up the funds at this time, or to precipitate its application to that single object. I think the matter had better be left open, to be governed by circumstances as things shall unfold.

It appears to me better, at the hazard of some criticism, to waive or defer an advantage inferior in magnitude, rather than incur a probable risk of disadvantage of much greater magnitude.

It appears by the letter from the Commissioners announcing the loan, already communicated to the

President, that the receipts on account of it may be considerably protracted. This is a circumstance of some weight in the decision.

I submit these considerations with all deference to the decision of the President, and have the honor to be, etc.

HAMILTON TO THE SPEAKER OF THE HOUSE OF
REPRESENTATIVES

December 1, 1794.

SIR:—I beg leave, through you, to make known to the House of Representatives, that I have signified to the President of the United States my intention to resign my office of Secretary of the Treasury on the last day of January next. I make this communication in order that an opportunity may be given, previous to that event, to institute any further proceeding which may be contemplated, if any there be, in consequence of the inquiry during the last session into the state of this Department.

With perfect respect, etc.

PUBLIC CREDIT

Communicated to the Senate, January 16 and 21, 1795.

TREASURY DEPARTMENT, January 16, 1795.

SIR:—I beg leave, through you, to inform the Senate that, pursuant to the second section of the act establishing the Treasury Department, which expressly makes it the duty of the Secretary of the Treasury “to digest and prepare plans for the

improvement and management of the revenue and for the support of public credit," I have digested and prepared a plan, on the basis of the actual revenues, for the further support of public credit, which is ready for communication to the Senate.

This plan embraces a further provision for the subscribed debt; a provision for converting, with the consent of the creditors, the foreign into the domestic debt; a provision for augmenting the sinking fund, so as to render it commensurate with the entire debt of the United States; suggestions for giving effect to the act of the last session, granting a million of dollars for the purposes of foreign intercourse; with some auxiliary propositions.

With perfect respect, I have the honor to be,
Sir, your obedient servant,

ALEXANDER HAMILTON,
Secretary of the Treasury.

To the Vice-President of the United States
and President of the Senate.

TREASURY DEPARTMENT, JANUARY 20, 1795.

SIR:—Agreeably to the order of the Senate, I have the honor to transmit the plan for the support of public credit, announced in my letter of the 16th instant, together with sundry statements connected with it; and to be

Your most obedient and humble servant,
A. HAMILTON.

To the Vice-President of the United States
and President of the Senate.

The Secretary of the Treasury respectfully makes the following report to the Senate:

The President of the United States, with that provident concern for the public welfare which characterizes all his conduct, was pleased, in his speech to the two Houses of Congress, at the opening of the present session, to invite their attention to the adoption of a *definitive plan* for the *redemption* of the public debt, and to the consummation of *whatsoever may remain unfinished of our system of public credit*, in order to place that credit, as far as may be practicable, *on grounds which cannot be disturbed*, and to prevent *that progressive accumulation of debt, which must ultimately endanger* all government.

It was, at the same time, very justly intimated that the period which has elapsed since the commencement of our fiscal measures (now more than four years) has so far developed our resources as to open the way to the important work. And it is matter of solid consolation that the result, presenting a state of our finances prosperous beyond expectation, solicits the public councils to enter, with zeal and decision, upon measures commensurate with the greatness of the interests to be promoted.

Under the influence of this conviction, in conformity with the suggestions of the President, and pursuant to the duty which the constitution of the Department, as by law established, enjoins upon the Secretary of the Treasury, he has employed himself in digesting and preparing the materials of a plan for the attainment of the invaluable ends which are

recommended. And he now respectfully submits them to the consideration of Congress.

Toward a clear and distinct conception of the means necessary to the accomplishment of those ends, it will be useful, in the first place, to review what has been heretofore done. This will be presented under three heads:

- I. The revenues which have been established;
- II. The provisions for funding the debt, and for the payment of interest upon it;
- III. The provisions for reimbursing and extinguishing the debt.

I. The revenues which have been established appear in the following acts:

1st. "An act for laying a duty on goods, wares, and merchandises imported into the United States," passed June the 1st, 1789. This act, as its title imports, lays various specific and ad-valorem rates on all articles (with exception of a few useful to agriculture and manufactures) imported from foreign countries. The lowest ad-valorem rate is five per cent., with a discount of ten per cent. in favor of our own bottoms. The duration assigned these duties was the end of the session of Congress next succeeding the first day of June, 1796.

2d. "An act imposing duties on tonnage," passed July 20, 1789.

This act lays various rates of duty on the tonnage of ships and vessels *entered* in the United States from foreign countries, and, in certain cases, in one part of the United States from another.

Its duration was indefinite, no limit having been assigned.

3d. "An act imposing duties on the tonnage of ships and vessels," passed July 20, 1790.

This act is a substitute for the one last mentioned, preserving the same rates of duty, but applying them, in some instances, differently. It is, like the former, of indefinite duration.

4th. "An act making further provision for the payment of the debts of the United States," passed August 10, 1790.

This act repeals, after the last of December, 1790, the duties on imported articles, laid by the act above cited, and substitutes new and generally increased rates, specific and ad-valorem.

The lowest ad-valorem rate in this, as in the former act, is five per cent.; but the number of articles to which it applies is much narrowed; and, instead of a discount in favor of our own bottoms, an addition of ten per cent. is made to the disadvantage of foreign bottoms.

The number of free articles is somewhat extended in further encouragement of agriculture and manufactures.

It is declared, that the duties laid by this act shall continue *till the debts and purposes for which they are appropriated shall be satisfied*; reserving, however, a right to Congress to *substitute* other duties or taxes of *equal* value.

5th. "An act to incorporate the subscribers to the Bank of the United States," passed the 25th of February, 1791.

The second section of this act authorizes the President to cause a subscription to be made to the stock of the bank, on account of the United States, to the amount of two millions of dollars; and, with a view to the accomplishment of that object, to borrow of the bank two millions of dollars, to be reimbursed in ten equal yearly instalments.

The difference between the interest payable on the loan and the dividends on the stock constitutes an item of annual income to the United States. It is unappropriated.

6th. "An act repealing, after the last day of June next, the duties heretofore laid upon *distilled spirits* imported from abroad, and laying others in their stead; and, also, upon spirits distilled within the United States, and for appropriating the same," passed the 3d of March, 1791.

This act, in conformity with its title, repeals, after June, 1791, the duties on imported spirits, laid by the act of the 10th of August, 1790, and establishes, in lieu of them, higher rates, namely, from twenty to forty cents per gallon, according to proof. It also lays duties, to commence at the same time, upon spirits distilled within the United States; namely, on those from *foreign* materials, from eleven to thirty cents, according to proof; on those from *domestic* materials, if distilled in cities, towns, or villages, from nine to twenty-five cents per gallon, according to proof; if distilled in other places, it imposes a yearly rate of sixty cents per gallon of the *capacity* of each still, with an option to the distiller to keep and render an account of the produce of his still,

and to pay nine cents per gallon of the quantity of spirits distilled therein.

These duties are appropriated, primarily, *in the same manner, and to the same purposes, as those laid on imported articles by the act of the 10th of August, 1790, and are to continue for the same time*, with the like reservation of a right to substitute other duties or taxes of equal value. There is a further appropriation, which will be noticed hereafter.

7th. "An act for raising a further sum of money for the protection of the frontiers, and for other purposes therein mentioned," passed May 2, 1792.

This act repeals, after June, 1792, the former duties on a number of imported articles, and establishes higher duties in their stead.

It extends, among other things, the duties on foreign distilled spirits, laying on those *made from grain*, twenty-eight to fifty cents per gallon; on others, twenty-five to forty-six cents per gallon. The *appropriation and duration* of these new duties are *conformable and coextensive with those repealed*. There is, likewise, an addition of two and a half per cent. to that class of duties ad valorem, which, before, was rated at five per cent.; but this additional duty is limited to the term of two years.

Out of the surplus of these duties, after satisfying the permanent appropriations, certain gross sums are appropriated for the service of the War Department.

8th. "An act concerning the duties on spirits distilled within the United States," passed May 8, 1792.

This act repeals, after the last day of June, 1792,

the former duties on spirits distilled within the United States, and on stills, and, instead of them, establishes lower duties, namely, on those made of *foreign* materials, from ten to twenty-five cents per gallon, according to proof; on those made of *domestic* materials, if in cities, towns, or villages, or at distilleries, where the stills, singly or together, are of the *capacity* of four hundred gallons, or upwards, from seven to eighteen cents per gallon of the spirits distilled, according to proof; if made in other places, or at distilleries where the stills are of inferior capacity, the yearly rate of fifty-four cents per gallon of the capacity of each still. A new option is given to the distiller, which is, instead of paying the yearly rate, to take out licenses for the monthly employment of his stills, paying, each time, ten cents per gallon of the capacity of each still.

These new duties are appropriated *in the same manner, and for the same purposes, and are to continue for the same time, as those for which they are substitutes: and to make good any deficiency which may accrue from lowering the rates, the surplus of the duty imposed* by the act of the second of the same month, is appropriated.

9th. "An act to promote the progress of useful arts, and to repeal the act heretofore made for that purpose," passed February 21, 1793.

This act ordains certain fees to be paid, by persons to whom patents are granted, for inventions, discoveries, or improvements, and *appropriates them to the purpose of defraying clerk hire in the Department of State.* Its duration is indefinite.

10th. "An act to establish the post-office and post-roads, within the United States," passed May 8, 1794.

This act establishes, to commence on the first of June following, various rates of postage on letters, and directs that the Postmaster shall render to the Treasury Department a quarterly account of receipts and expenditures, and shall pay, quarterly, into the Treasury, the balance in his hands.

The duration of this act is, also, indefinite. It contains no appropriation of the sums paid into the Treasury.

11th. "An act laying duties upon carriages for the conveyance of persons," passed June 5, 1794.

This act lays different rates of duty, from ten dollars down to one dollar, upon carriages *for the conveyance of persons*, kept by or for any person, for his or her own use, or to be let to hire, or for the conveying of passengers; and to guard against misapprehension, declares, that the duties shall *not be construed* to extend to any carriage *actually and chiefly employed in husbandry*, or for the *transporting or carrying of goods, wares, merchandise, produce, or commodities*.

The duration of the duties is limited to the end of the session of Congress which shall be next after the term of two years from the time of passing the act. It contains no appropriation.

12th. "An act laying duties on licenses for selling wines and foreign distilled spirituous liquors, by retail," passed June 5, 1794.

This act requires, that every retail dealer in wines,

shall take out a yearly license, and shall pay for it a duty of five dollars; and that every retail dealer in *foreign* distilled spirituous liquors shall also take out a yearly license, and pay for it a duty of five dollars. It defines a retail dealer in wines to be a person who deals in the selling of wines, *to be carried or sent out of the house, building, or place of his or her dwelling*, in less quantities at one time than thirty gallons, except in the original cask, case, box, or package in which it is imported. A retail dealer of spirituous liquors, to be a person who shall deal in the selling of *foreign* distilled spirituous liquors, *to be carried or sent out of the house, building, or place of his or her dwelling*, in less quantities than twenty gallons at one time. No difference is made between the dealer in several kinds of wines, or several kinds of foreign distilled liquors, and the dealer in one kind.

The same duration is assigned to this act, as to the one last cited. It is equally without an appropriation.

13th. "An act laying certain duties upon snuff and refined sugar," passed June 5, 1794.

This act lays a duty of eight cents per pound on all snuff which, after the 30th of September, 1794, should be manufactured within the United States, and of two cents per pound on all sugar which, after that day, should be refined within the United States. The remark made upon the two last recited acts is applicable to this, as to the duration of the duties, and the appropriation of their proceeds.

14th. "An act laying additional duties on goods, wares, and merchandises imported into the United States," passed June 7, 1794.

This act lays upon sundry enumerated articles, on their importation from foreign countries, certain specific and ad-valorem rates of duty, in addition to those before charged upon them, and adds, generally, a duty of two and a half per centum on all that class of articles which were before chargeable with seven and a half per centum ad valorem. It also prolongs the temporary two and a half per centum laid by the act of May 2, 1792, till the first of January, 1797, to which period the other duties laid by it are to continue. It contains no appropriation.

15th. "An act laying duties on property sold at auction," passed June 9, 1794.

This act lays a duty on sales at auction by persons licensed according to the laws of a State, or this act, prohibiting others from selling at auction, of one quarter per cent. of the purchase money arising from the sale of any right, interest, or estate in lands, tenements, or hereditaments, utensils in husbandry, farming stock, or ships and vessels, of one half per cent. of the purchase money arising from the sales of any other goods, chattels, rights, or credits.

The term of these duties is limited to the end of the session next after the expiration of two years from the time of passing the act, which also is without an appropriation.

But, by an act entitled "An act making appropriations for certain purposes therein expressed," passed the same 9th of June, 1794, certain specific sums, amounting together to 1,292,137 dollars 38 cents, are charged upon the proceeds of the revenues which are created by the five last-mentioned acts, and there

is a reservation made out of them of a sum sufficient to pay the interest of whatever moneys may be borrowed pursuant to the act entitled "An act making further provision for the expenses attending the intercourse of the United States with foreign nations," etc., passed the 20th of March, 1794, *which sum is pledged for the payment of that interest.*

These acts comprehend all the current revenues of the United States. Their product will appear hereafter.

In addition to them, a fund will be derived from the sale of the public lands in the Western territory. And there likewise occur, from time to time, payments into the Treasury on account of old debts; but these are too casual, and of too little magnitude, to be more than cursorily mentioned.

The lands in the Western territory, of which the Government of the United States has acquired the right of soil, are estimated, in a report of the late Secretary of State, to amount to 21,000,000 of acres. This quantity, at twenty cents per acre, the price upon former occasions contemplated, would yield a sum of \$4,200,000. But it is believed that it would be unsafe to count upon so large a sum. Besides the uncertainty as to the proportion which may be of a salable quality, and as to the price which may be obtained for it, the boundary line between the United States and the Indians is understood to be unsettled with regard to a large part of the tract on which the computation is made. If it ultimately yields three millions of dollars it will probably equal every reasonable expectation.

II. The provisions for funding the debt, and for payment of interest upon it, are comprised in the following acts:

1st. "An act making provision for the debt of the United States," passed August 4, 1790.

This act, commonly called the funding act, contains these several provisions, viz.:

1. It reserves out of the proceeds of the duties on imports and tonnage for the support of the Government of the United States, and their common defence, the yearly sum of 600,000 dollars.

2. It appropriates *so much of the same proceeds as should be necessary* to the payment of interest on foreign loans before that time contracted, or which should afterward be contracted, for discharging the arrears of interest and the principal of antecedent foreign loans, to continue so appropriated till the debt created by those loans should be fully discharged.

3. It authorizes the President to borrow any sum or sums, not exceeding \$12,000,000, to discharge the arrears of interest upon, and the instalments of the principal of, the foreign debt due and to grow due; and, *if to be effected on advantageous terms*, to pay off the whole of that debt; and further authorizes him to make such other contracts respecting it as should be found for the interest of the United States, so that no engagement or contract should preclude from reimbursing the sums borrowed, within fifteen years after they should be borrowed.

4. In order to adapt the form of the domestic debt to the then circumstances of the United States, as

far as should be found practicable, "*consistently with good faith and the rights of the creditors*, which, it truly declares, *could only be done by a voluntary loan on their part*," it proposes a loan to the United States (directing for that purpose books for subscriptions to be opened at the Treasury and by commissioners of loans in the several States on the 1st of October, 1790, and to continue for a year), the sums subscribed to the loan to be paid in certain enumerated evidences of the debt of the United States upon these terms, viz.:

First. That the interest unpaid on the principal of those evidences should be computed up to the last of December, 1790.

Second. That, for any sum subscribed and paid in the *principal* of the debt, the subscriber should be entitled to one certificate for a sum equal to two thirds of the sum subscribed, bearing an interest of six per cent. per annum, commencing the first day of January, 1791, *payable quarter yearly*, and subject to redemption by payments not exceeding, in one year, *on account of both principal and interest*, eight dollars upon a hundred of the *original sum* so subscribed and paid; and to another certificate for a sum equal to the remaining third of that sum, which, after the year 1800, should bear a like interest, payable in like manner, and subject to a like rate of redemption. But that the United States, *though having a right to redeem in the above-mentioned proportion, should not be obliged to do it.*

Third. That for any sum subscribed and paid in the *interest* of the debt, the subscriber should be en-

titled to a certificate for a sum equal to the sum subscribed, bearing an interest of three per cent. per annum, from the said last day of December, 1790, payable quarter yearly, and redeemable at pleasure, by payment of the principal.

Fourth. That the new stock created by the said loan should be *transferable on the books upon which the credit for it should stand by the proprietor or his attorney*; these books to be either those kept for the purpose at the Treasury, or by commissioners of loans in the respective States; a mode being provided for the transfer from the books at one place to those at another.

Fifth. That the interest should be payable where-soever the credit for the stock should exist, when the payment of interest should become due; except that the dividend of interest for any quarter of a year, which should not be demanded before the expiration of a third quarter, should afterwards be demandable only at the Treasury.

Sixth. That, for the regular payment of the interest on the several kinds of stock to arise from the loan, as it should accrue, *including that which is deferred*, the proceeds of the public revenues, which, before that time, had been, or during the then session should be, provided, after *reserving, yearly, 600,000 dollars, for the support of the Government of the United States, and their common defence, and such sum as should be necessary for payment of interest on the foreign loans before mentioned*, should be, and thereby were, *pledged and appropriated*, till the final redemption of the capital stock.

5. Premising that some of the creditors of the United States might not *think fit* to become subscribers to the loan, this act declares that "*nothing contained in it should be construed in any wise to alter, abridge, or impair the rights of those creditors of the United States who should not subscribe to the loan or the contracts upon which their respective claims are founded, but that the said contracts and rights should remain in full force and virtue.*" And to obviate all idea of compulsion on the creditors to subscribe, it allows to non-subscribers, during the pendency of the loan, and until the end of the year 1791, a rate per centum, on their respective demands, equal to that which is paid to subscribing creditors; on the sole condition, that the evidences of debt holden by them, except those which had been issued by the Register of the Treasury, for the registered debt, should be exchanged for other certificates, specifying the specie amount of those in exchange for which they were given, and otherwise of the like tenor with those which had theretofore been issued by the Register of the Treasury, for the registered debt; stating, as the grounds of this condition, that some of the certificates then in circulation had not been liquidated to specie value, that most of them were greatly subject to counterfeit, that counterfeits had actually taken place in numerous instances, and that embarrassment and imposition might attend the payment of interest on these certificates in their then form.

6. This act likewise proposes another loan, to the amount of \$21,500,000, payable in the principal and

interest, indiscriminately, of the evidences of debt of the respective States, according to certain quotas, to be conducted in the same manner, and to be open for the same time, as that in the domestic debt of the United States. The terms of this loan to be:

First. That, for any sum subscribed, the subscriber should be entitled to one certificate, for a sum equal to four ninths of the subscribed sum, bearing an interest of six per centum per annum, commencing the first day of January, 1791; to another certificate, for a sum equal to two ninths of the said subscribed sum, bearing an interest, after the year 1800, of six per centum per annum; and to a third certificate, for a sum equal to three ninths of the said subscribed sum, bearing an interest of three per centum per annum, commencing on the same first day of January, 1791; the interest, in each case, to be payable in like manner, and to be subject to the like redemption, as that on the correspondent kinds of stock to be created by this, the said first-mentioned loan. And the stock to be created by this second loan to be *transferable* on the same principles, and in the same modes, as that produced by the former.

Second. That, for the regular payment of interest on the several kinds of stock to arise from this loan, as it should accrue, *including that which is deferred*, the proceeds of the public revenues, which, before that time, had been, or during the then session should be, provided, *after reserving the aforesaid yearly sum of \$600,000, the sum necessary for payment of interest on the foreign loans made and to be made, and the sum*

necessary for payment of interest on the loan in the domestic debt, should be, and thereby were, pledged and appropriated; to continue so pledged and appropriated until the final redemption of the capital stock.

7. To secure the due application of these revenues, according to the appropriations, an account of them is directed to be kept, distinct from that of the proceeds of any other revenues, except such as should be raised to make good a deficiency in those; and the faith of the United States is pledged to appropriate additional and permanent funds for satisfying such deficiency.

8. The proceeds of the sales of lands in the Western territory, then belonging, or which thereafter should belong, to the United States, are pledged and appropriated for the discharge of the debts which the United States then owed, or by virtue of that act should owe.

There are several collateral and supplementary provisions, which are omitted, as immaterial to the intended view of the subject.

2d. "An act repealing, after the last day of June next, the duties heretofore laid upon distilled spirits," etc., passed the 3d of March, 1791.

The proceeds of the duties laid by this act are made subject to the same appropriations, and in the same order of priority, as those contained in the funding act; and, to secure their due application, an account is directed to be kept of them, distinct from that of any other revenues, except those appropriated by the funding act.

3d. "An act for raising a further sum of money for the protection of the frontiers," etc., passed May 2, 1792.

This act, which, as has been before noticed, increased permanently the duties on certain imported articles, and laid a temporary additional duty on some others, appropriates, primarily, the proceeds of the permanent augmentations in the same manner, and to the same purposes, as the antecedent duties were appropriated—that is, in conformity with the funding act.

4th. "An act concerning the duties on spirits distilled within the United States," passed May 8, 1792.

This act, which lowers the duties on spirits distilled within the United States, and on stills, appropriates the proceeds of the reduced duties in the same manner as were the former duties; and, to make good whatever deficiency might be occasioned by the reduction of the rates, pledges, as a substitute, the surplus of the augmented duties laid by the last-cited act.

5th. "An act providing for the payment of the second instalment due on a loan made of the Bank of the United States," passed June 4, 1794.

This act, in addition to a provision for paying that second instalment, appropriates so much of the dividends on the stock which the United States hold in the bank, as should be necessary to the payment of interest on the capital of a loan of \$2,000,000, had of the bank, pursuant to the 11th section of the act by which it is incorporated. It also fixes the last day of December, in each year, as the annual period

for the payment of the successive instalments of that loan.

6th. "An act making provision for the payment of the interest on the balances due to certain States," upon a final settlement of accounts between the United States and the individual States, passed May 30, 1794.

This act directs that interest shall be allowed and computed on the balances to creditor States from the last of December, 1789, to the last of December, 1794; which, being placed to their credit respectively, shall bear an interest of three per centum per annum, from the period last mentioned.

It further directs that the interest on the principal balances, to be funded agreeably to the terms of the act for the settlement of accounts, together with the interest upon the arrears of interest, computed on those balances, and forming a new capital, shall be payable at the offices of the commissioners of loans within the States to which the balances are respectively due, and shall be paid quarter yearly, after the last day of December, 1794, at the same epochs in each year, at which interest is payable on the other parts of the funded debt; to which end, so much of the proceeds of the duties on imports and tonnage as may be necessary, *and as were not otherwise previously appropriated*, are appropriated; and the faith of the United States is pledged to provide for any deficiency which may happen by additional and permanent funds.

There are several acts which prolong, from time to time, the subscriptions in the domestic and State

debts, on the same terms as by the funding act, those in the domestic debt being continued down to the last day of December, 1794; which acts, together with the acts particularly cited, comprise all those that relate to the funding of the public debt, and the payment of interest thereupon. The result of these acts is exhibited in the tables A, B, C, and D, which show the amount of the foreign debt, that of the funded debt, the probable amount of that which remains unfunded, of what composed, and the annual amount of interest upon the different portions of debt, according to contract, and according to the plan of this report.

III. The provisions for reimbursing and redeeming the public debt are contained in the following acts, and are as follows, viz.:

1st. "An act making provision for the debt of the United States," passed the 4th of August, 1790.

This act, which is the one that regulates the funding of the debt, by the last section appropriates the proceeds of the sales of the lands in the Western territory, then belonging, or thereafter to belong, to the United States, to the sinking or discharging of the debts for which the United States then were, or by virtue of that act should be, holden, to be applied solely to that use, until they should be fully satisfied.

2d. "An act making provision for the reduction of the public debt," passed August 12, 1790.

This act, premising that it is desirable, by all just and proper means, to effect a reduction of the public

debt, and that the application of the surplus revenue to that object will not only contribute to this desirable end, but will be beneficial to the creditors of the United States, by raising the price of their stock, and be productive of considerable saving to the United States, enacts—

1. That the surplus of the duties on imports and tonnage, to the end of the year 1790, shall be applied to the *purchase* of the debt of the United States, at its market price, if not exceeding the par or true value thereof.

2. That the purchases to be made shall be conducted under the direction of the President of the Senate, the Chief-Justice, the Secretary of State, the Secretary of the Treasury, and the Attorney-General, who, or any three of whom, with the approbation of the President, are authorized to cause them to be made in such manner, and under such regulations, as shall appear to them best calculated to fulfil the intent of this act: *Provided that the same should be made openly, and with due regard to the equal benefit of the several States.*

3. That the accounts of the application of the fund should be settled as other public accounts, accompanied with returns of the amount of debt purchased, at the end of each quarter of a year; and that a full and exact report of the proceedings of the commissioners should be laid before Congress, within the first fourteen days of each session, including a statement of the disbursements and purchases, specifying the times when, prices at which, and persons of whom, the purchases were made.

4. That, in addition to this fund, the President should be authorized to borrow any sum or sums, not exceeding two millions of dollars, at an interest not exceeding five per centum, to be applied to purchases of public debt in like manner, and under the same direction and regulations, as the first-mentioned fund: *Provided that, out of the interest of the debt to be purchased, there should be appropriated, annually, a sum not exceeding eight per centum of the sums borrowed, towards paying the interest and reimbursing the principal of these sums.*

But to guard against the possibility of a deficiency of means to pay the interest on the debt which was to accrue in the year 1791, authority is given to reserve and apply to that purpose, out of the first-mentioned fund, as much as might be necessary to supply the defect of receipts, during that year, on account of the duties which should accrue after the year 1790.

3d. "An act repealing, after the last day of June next, the duties heretofore laid upon distilled spirits, etc.," passed the 3d of March, 1791.

This act appropriates whatever surplus may remain, from year to year, of the proceeds of the duties which it imposes, after satisfying prior appropriations, to the reduction of the public debt, unless such surplus shall be required for the current public exigencies, and, by *special* acts of Congress, shall be appropriated thereto.

4th. "An act supplementary to the act making provision for the reduction of the public debt," passed the 3d day of March, 1791.

This act declares that the terms of a loan of three millions of florins, obtained in Holland, bearing five per cent. interest, and four and a half per cent. for charges, and future loans on the same terms, should be deemed to be within the meaning of the act of the 12th of August, 1790.

5th. "An act supplementary to the act making provision for the debt of the United States," passed May 8, 1792.

This act makes provision for the payment of a debt due to certain foreign officers who had served the United States (the interest of which was, by stipulation, payable at Paris), out of the moneys authorized to be borrowed by the funding act. It also establishes a permanent sinking fund, to be composed—

1. Of the interest of the public debt purchased, redeemed, or paid into the Treasury, in satisfaction of any debt or demand.

2. Of the surplus, if any, which should remain of moneys appropriated for paying the interest of the public debt, after paying that interest.

This fund is to be applied, under the direction of the commissioners nominated in the act of the 12th of August, with the like approbation of the President—

First. To the purchase of the several species of stock constituting the debt of the United States, at their respective market prices, not exceeding the par or true value thereof, and, as nearly as may be, in equal proportions, *until the annual amount of the fund shall be equal to two per centum of the whole*

amount of the outstanding funded stock, bearing a present interest of six per centum: Thenceforth—

Second. To the *redemption* of that stock, according to the right reserved to the United States, *until the whole should be redeemed*; and, lastly, *after such redemption, to the purchase*, at its market price, of *any unredeemed debt* of the United States; which purchases are directed to be made at the lowest prices at which they can be effected by open purchase, or by receiving sealed proposals, to be opened in the presence of the commissioners, or persons authorized by them to make purchases, and of the persons making the proposals; and are to be accounted for at the Treasury, and reported to Congress, in the same manner as the purchases before authorized to be made.

6th. "An act making appropriation for the support of Government for the year 1793."

This act provides that the President of the United States shall cause so much of the loan made of the Bank of the United States, pursuant to the 11th section of the act of incorporation, to be paid off in sums not less than 50,000 dollars, as, in his opinion, the state of the Treasury may, from time to time, admit, out of any moneys which may be in the Treasury, having due regard to the exigencies of the Government and the appropriations made, and to be made, by law.

7th. "An act making provision for the payment of the first instalment due on a loan made of the Bank of the United States," passed March 2, 1793.

This act authorizes the payment of the first

instalment of a loan of two millions of dollars, had of the Bank of the United States, pursuant to the 11th section of the act by which it is incorporated, out of the moneys borrowed upon the authority of the act making provision for the reduction of the public debt.

8th. "An act providing for the payment of the second instalment, due on a loan made of the Bank of the United States," passed June 4, 1794.

This act authorizes the payment of that second instalment, out of the proceeds of any foreign loans before that time transferred to the United States. It makes other provisions which have been noticed under a preceding head.

These acts comprise all the provisions which have been made for reimbursing and redeeming the debt of the United States. The result to the last of December, 1794, is presented in the statement E.

There are two other acts which, though not falling properly under either of the foregoing heads, require, from their relation to the subject, to be brought into view:

1. An act relative to claims against the United States not barred by any act of limitation, and which have not been already adjusted, passed February 12, 1793.

This act directs that all claims of the description given in the title shall be presented at the Treasury for adjustment by the 1st of May, 1794, or shall be forever after barred; except those for *loan-office certificates, final settlements, indents of interest, Register's certificates, balances on the books of the Treasury,*

loans of money in foreign countries, certificates issued under the act entitled "An act making provision for the debt of the United States."

Such of the claims presented as cannot be admitted in the course of the Treasury are to be reported to Congress by the accounting officers.

Among the claims inadmissible in the ordinary course of the Treasury is a sum of 90,574 dollars of the bills of credit, commonly called new emission money.

2. An act making further provision for the expenses attending the intercourse of the United States with foreign nations, etc., passed March 20, 1794.

This act appropriates, in addition to former provisions, one million of dollars for the purposes mentioned in the title, to be paid out of any moneys which may be in the Treasury not otherwise appropriated, and to be applied under the direction of the President of the United States who is also authorized, if necessary, to borrow the whole or any part of the sum; but there is no special appropriation either for paying the interest or reimbursing the principal of the loan.

The act already quoted of the 9th of June, 1794, entitled "An act making appropriations for certain purposes therein expressed," with a view to remedy this defect, appropriates out of the proceeds of the taxes laid during the last session such sum as shall be sufficient to pay the interest on whatever moneys may be borrowed, pursuant to the act of March 20, 1794.

The foregoing review of the laws which constitute the fiscal system of the United States displays these prominent points as the leading features of that system:

1st. That all the current revenues of the United States are derived from these sources, to wit: IMPORTED ARTICLES; the TONNAGE of ships and vessels; SPIRITS distilled within the United States, and STILLs; the POSTAGE of letters; FEES ON PATENTS; DIVIDENDS of bank stock; SNUFF manufactured within the United States; SUGAR refined within the United States; SALES AT AUCTION; LICENSES to retail wines and distilled spirits; CARRIAGES for the conveyance of persons.

2d. That, of these revenues, the principal part of the duties on imported articles, those on the tonnage of ships and vessels, those on distilled spirits and stills, those on the postage of letters, patent fees, the dividends on bank stock, are permanent (the three first being commensurate with the existence of the debt for the payment of the interest of which they are pledged, the fourth and fifth having no limit assigned in the laws, and the last being commensurate with the duration of the property in the stock), all the others temporary; being limited to continue no longer than till the end of the session of Congress next after the expiration of two years from the respective times of passing the laws which established them, except the temporary duties on imports and tonnage, which are to continue till the 1st of January, 1797.

3d. That the permanent duties on imported art-

icles, the tonnage duties, the duties on spirits distilled within the United States, and on stills, are subject to these permanent dispositions:

1. To an annual reservation of 600,000 dollars, for the support of the Government of the United States and their common defence.

2. To an appropriation of so much as may be necessary to pay the interest on the foreign loans, provided for by the funding act.

3. To an appropriation of so much as may be necessary to pay the interest on the stock created by the loan in domestic debt, or more properly in the original debt of the United States.

4. To an appropriation of so much as may be necessary to discharge the interest on the stock created by the loan in the debts of the respective States.

5. To an appropriation of so much as may be necessary to pay the interest on the balances due to creditor States, which dispositions establish *priorities*, according to the order in which they are here enumerated.

4th. That the surplus, if any, of the duties on spirits distilled within the United States, and on stills, has an ultimate appropriation, that is, to the reduction of the public debt, *but that the surpluses of the other duties have no such ultimate appropriation.*

5th. That the duties on the postage of letters, and the net dividend on bank stock, have *no permanent or particular appropriation.*

6th. That the temporary duties *are charged with*

a specific sum of 1,292,137 dollars and 38 cents; and with the payment of *interest on a sum of 1,000,000 of dollars, authorized to be borrowed for the expenses of foreign intercourse.*

7th. That the whole of the foreign debt, and all that part of the domestic debt, being now nearly the whole, which consists of the stock created by the loans in the original debt of the United States, and in the particular debts of the several States, and by the balances due to creditor States, are *bottomed on certain specified revenues, pledged or hypothecated* for the payment of the *interest* upon them; and *thus* constitute the FUNDED DEBT of the United States.

8th. That the funded DOMESTIC debt of the United States consists of three species of stock, one bearing a present interest of six per cent. per annum; another bearing a like interest after the year 1800; a third bearing a present interest of three per centum per annum: *the interest in each case payable quarter yearly.*

9th. That the six per cent. stock, present and deferred, can be redeemed in no greater proportion than at the rate of eight per centum per annum of the *original* sum, on account both of principal and interest; but the three per cent. stock is redeemable at pleasure.

10th. That the provision for subscribing to the loan in domestic debt expired on the last of December, 1794, and that *no further provision* has been made for the unsubscribed residue.

11th. That the funding act *expressly confirms the contracts and rights* of the creditors of the United

States, who shall not *think fit to subscribe to the loan*, and gives an *expectation* to them of *further and other arrangements*, upon the event of the propositions made to them.

12th. That the proceeds of all the lands of the United States in the Western territory are appropriated to the redemption of all that part of the public debt for which, *prior to the funding act*, or by *virtue thereof*, the United States were or are liable.

13th. That, in addition to this, a regular SINKING FUND has been successively constituted, to be applied under the direction of five principal officers of the United States, with the approbation of the President, hitherto composed of three parts: 1st. The surplus of the duties on imports and tonnage to the end of 1790. 2dly. The proceeds of loans not exceeding two millions of dollars, authorized to be borrowed for the purpose (these two funds to be invested in purchases); and 3dly (in which the two former resolve themselves), the interest on the public debt, *purchased, redeemed, or paid* into the Treasury, together with the surpluses, if any, of the moneys appropriated for interest, to be applied first to *purchases* of the debt *till* the fund is equal to two per centum of the *outstanding stock*, bearing a present interest of six per cent.; second to the redemption of that stock; and lastly, to purchases of any unredeemed residue of the public debt. But there is *reserved out of this fund a sum not exceeding eight per centum per annum*, toward the payment of interest and reimbursing of the principal of the loans made for purchases of the debt.

To this recapitulation of the leading features of our fiscal system, it may be useful to add a summary exhibition of certain results, which appear more in detail, or are deducible from the tables or statements annexed to this report.

The particulars and amount of the debt of the United States, are as follow:

Foreign debt, as per statements B and C	\$14,599,129 35	
Deduct instalment of foreign debt in the year 1795, to be paid out of proceeds of foreign loans	853,750 00	
	<hr/>	\$13,745,379 35
Funded domestic debt, viz.:		
1. Arising from original domestic debt, subscribed to loan proposed by funding act:		
Stock bearing a present interest of six per cent.	\$17,912,138 01	
Stock bearing a future interest of ditto	8,538,228 97	
Stock bearing an interest of three per cent.	12,275,347 55	
2. Arising from State debts assumed:		
Stock bearing a present interest of six per cent.	7,908,374 19	
Stock bearing a future interest of ditto	3,940,608 96	
Carried forward	\$50,574,697 68	\$13,745,379 35

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Brought forward .	\$50,574,697 68	\$13,745,379 35
Stock bearing an interest of three per cent. .	5,944,115 70	
3. Arising from bal- ances to creditor States:		
Stock bearing a present interest of six per cent.	2,345,056 00	
Stock bearing a future in- terest of ditto . . .	1,172,528 00.	
Stock bearing an interest of three per cent. .	703,516 80	
	<hr/>	\$60,789,914 18
Unsubscribed debt, viz.:		
Principal, exclusive of loan-office certificates, bearing interest on nominal value . . .	\$1,072,583 40	
Interest thereupon, in- cluding indents . . .	452,826 74	
Principal of loan-office certificates, bearing in- terest on nominal sum .	27,935 00	
Interest thereon . . .	7,830 00	
	<hr/>	\$1,561,175 14
Total unredeemed debt,		<hr/> \$76,096,468 67

This is exclusive of a sum of \$1,400,000 due to the Bank of the United States, on account of the loan of \$2,000,000 had of that institution, pursuant to the eleventh section of the act by which it is incorporated, and which is not included in the mass of the debt, because it is more than counterbalanced by a greater value in stock. It is also exclusive of

those loans which are temporary anticipations of the revenue.

The particulars and amount of the annual current revenues of the United States, are as follows:

APPROPRIATED.	PERMANENT.	
Duties on imports and tonnage, domestic . . .	\$4,199,791	67
Duties on distilled spirits and stills . . .	400,000	00
Fees in patents . . .	660	00
UNAPPROPRIATED.		
Postage of letters . . .	29,722	16
Surplus dividends on bank stock . . .	62,500	00
	\$4,692,673	83
TEMPORARY.		
Temporary duties on imports . . .	\$1,479,626	91
INTERNAL.		
Duties on snuff, refined sugar, sales at auction, licenses to retail spirits and wines, carriages for conveyance of persons . . .	380,000	00
	\$1,859,626	91
Total annual current revenue,	\$6,552,300	74

The particulars and amount of the annual stated expenditure of the United States, computing the army and navy establishments on the scale of an Indian and Algerine war, are as follows:

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Interest on the foreign debt	\$638,480 58
Interest on domestic funded debt	2,339,241 50
Interest on unfunded debt	66,031 10
Interest on temporary loans	100,000 00
Expenses of the civil Government, includ- ing foreign intercourse	475,249 53
Expenses of military land service	1,511,975 29
Expenses of military naval service	441,508 80
Miscellany	109,357 04
Total annual expenditure,	\$5,681,843 84

This sum is liable to be increased by the interest which will begin to accrue on the deferred stock the first of January, 1801; being, on the present amount of that stock, 871,401 dollars and 92 cents.

The annual force of the sinking fund, as depending on ascertained funds, may be stated as follows:

Interest for a year, on sums already carried to its credit	\$68,225 55
Interest for a year, on debts of foreign officers, in a course of payment, including arrears of interest to be carried to the credit of this fund	13,439 49
Interest for a year, on the unexpended surplus of the revenues at the end of the year 1790, being 411,659 dollars 49 cents, sup- posing this to be invested, by purchase, in an equal sum of present six-per-cent. stock	24,699 56
	\$106,364 60

It is further liable to be increased by an invest-
ment in purchases of 865,098 dollars 11 cents, which,

together with the sums from that source already invested in purchases and payments will amount to 2,000,000 of dollars, the sum authorized to be borrowed for purchases of the debt.

But, as this auxiliary depends on an operation, not only future, but, in some degree, casual, it cannot be taken into an estimate of the actual strength of the fund.

The proceeds of the sales of Western lands must also be considered as an eventual resource.

There are other contingent sources of augmentation, not computed, because they are contingent. But, on the other hand, the fund is liable to be reduced by a sum reserved out of it for the payment of principal and interest, of the two millions authorized to be borrowed for purchases not exceeding eight per centum per annum.

The sum applicable, in the first instance, to the redemption of that portion of the funded debt which bears a present interest of six per centum, excluding that standing to the credit of the commissioners of the sinking fund, is as follows:

Of transferable stock	\$516,410 24
Of untransferable stock, arising from bal- ances to creditor States	46,901 12
	<hr/>
	\$563,311 36

The sum applicable, in the first instance, that is, on the 1st day of January, 1802, to the redemption of that portion of the funded debt, now called deferred stock, excluding that standing to the credit

of the commissioners of the sinking fund, will be as follows:

Of transferable stock	\$249,576 75
Of untransferable stock, arising from bal- ances to creditor States	23,450 56
	<hr/>
	\$273,027 31

These sums would complete the redemption of the whole amount of the stock to which they are applicable, within twenty-three years after the redemption in each case was begun; within which terms they would discharge the whole of the public debt, except the foreign debt, the unsubscribed debt, and the three-per-cent. stock.

If the redemption of the present six-per-cent. stock commence the first of January, 1796, and the redeeming fund be commensurate with the whole of the unredeemed stock bearing a present interest of six per cent. and *transferable*, the revenue set free in the year 1818, for operations upon the residue of the debt, will be 2,039,394 dollars 36 cents.

If the redemption of the deferred debt commence the first of January, 1802, when it may rightfully commence, and the redeeming fund be commensurate with the whole of that stock, *unredeemed* and *transferable*, the revenue set free in the year 1824, for operations upon the residue of the public debt, if any remain, will be \$998,307 02.

The revenue set free by these successive redemptions would be sufficient to redeem the whole of the present foreign debt in six years; that is, within a

term of twenty-eight years from the proposed time for commencing the redemption, or the 1st of January, 1796; and, after extinguishing the foreign debt, would more than discharge the whole of the balances to creditor States, and the whole of the unfunded debt in two years more.

If the proceeds of the lands in the Western territory should be equal to three million of dollars, and the three-per-cent. stock can be purchased at an average of twelve shillings in the pound, that fund would suffice to pay off the principal of the three-per-cent. stock, in something more than twenty-five years.

It follows that, if the force of the sinking fund be rendered equal, exclusive of the proceeds of the sales of Western lands, to the redemption of the present unredeemed transferable stock, commencing the 1st of January, 1796, as to that bearing a present interest of six per centum, and the 1st of January, 1802, as to that bearing a future interest of six per centum; and if the proceeds of the sales of Western lands should prove equal to three million of dollars, and can be brought into action for purchases of the three-per-cent. stock, at the rate above mentioned, at any time before the year 1801, the whole of the present debt of the United States, foreign and domestic (the funds appropriated being, during the whole period, adequate in productiveness, and inviolably applied), would be extinguished in thirty years. And there would then revert to the United States an annual income of 4,435,320 dollars and 89 cents. Some auxiliary provisions,

which will be proposed, may greatly accelerate that result.¹

On the basis of the foregoing data, the Secretary of the Treasury proceeds to submit to the consideration of Congress certain propositions which appear to him necessary to be adopted to complete our system of public credit. These will be followed by some explanatory remarks.

I. PROPOSITION

That further provision be made, with regard to the yet *unsubscribed* debt of the United States, as follows:

1st. Further time to be given, until the end of the year 1795, to subscribe the same to the loan proposed by the funding act; with liberty to the holders to subscribe the arrears of interest up to that period separately from the principal, reserving that principal on its original footing.

2d. An appropriation to be made for payment of interest on so much of the principal (excepting loan-office certificates bearing interest on the nominal value) as, at the year 1795, shall remain unsubscribed, *for the term of one year*, according to the rate or rates stipulated by the original contracts, and for the payment of ten per centum of the arrears of interest thereupon, to the same end of the year 1795. This payment to be made on the 1st of January,

¹ These results are not stated with fractional correctness, because it is not necessary to a satisfactory conclusion, and the minuteness of the calculation would have demanded more time than can conveniently be spared.

1796, at the Treasury, where no *particular place* of payment is stipulated, and at _____ where there is one.

3d. The *specie principal* of the loan-office certificates, which bear interest on the nominal value, together with the arrears of interest, to be immediately paid off.

II. PROPOSITION

That provision be made for taking, upon loan to the United States, by subscription at the Treasury, the *outstanding* and *unbarred* new emission bills of credit, the sums subscribed to be paid in the principal only of those bills, and the stock of the new loan to bear an interest of five per cent. per annum, payable quarter yearly at the Treasury, and redeemable at the pleasure of the United States by payment of the principal, with a stipulation to pay the same at the expiration of thirty years. The loan to be deemed to commence on the 1st of January, 1796, and to rest on funds permanently pledged, namely, the permanent revenues.

III. PROPOSITION

That provision be made for converting, by a new loan, the whole of our present foreign into domestic debt, upon these terms, to wit: that, for any sum subscribed to the new loan, and paid in the principal of the present foreign debt of the United States, there be allowed, in addition to the interest now payable upon such principal, the further yearly interest

of one half per centum, or, in lieu thereof, at the option of each subscriber, an equivalent sum in capital stock, bearing an interest of five per centum per annum. That the whole interest upon the new loan, including that upon the capital stock, to be given as an equivalent for the additional one half per cent., shall remain fixed until the first day of January, 1818, at which time, and not sooner, the principal of the said new loan, including the said capital stock given as an equivalent, may and shall be reimbursed, except as to such subscribers as may prefer a shorter term of reimbursement, who may elect any term not less than fifteen years. That the permanent revenues shall be and remain firmly pledged for the payment of the said interest, until the reimbursement of the said principal, to be paid quarter yearly, as that of the present funded domestic debt. And, lastly, that the commissioners of the sinking fund be empowered, with the approbation of the President, to provide, by new loans, for the reimbursement of any instalment or part of principal of the present foreign debt, or of the loan to be made thereupon, as aforesaid, either by direct borrowing or by sale in the market, of certificates of stock, so as the said loan or the said certificates of stock shall bear an interest not exceeding six per centum per annum, and shall be liable to reimbursement within a term not exceeding twenty-four years. The interest upon the capital reimbursed, and, in aid thereof, the permanent revenues, to be pledged for the interest upon the loans or stock to be made or created by virtue of the said power.

IV. PROPOSITION

That the temporary duties on imports be made coextensive, in duration, with those now permanent, and be appropriated in like manner; and that the reservation of 600,000 dollars, annually, out of the duties on imports and tonnage, for the support of the Government of the United States, and their common defence, be postponed till after the appropriations for the interest of the funded debt, foreign and domestic, and for the SINKING FUND.

V. PROPOSITION

That the following provisions be added to those heretofore made, for reimbursing and redeeming the debt of the United States:

1st. To direct, by law, that so much of the surplus of the duties on imports and tonnage, to the end of the year 1790, as shall remain uninvested in purchases, on the 1st day of January, 1796, shall be so invested, one fourth part within the month of April, another fourth part within the month of July, another fourth part within the month of October, in that year, and the remainder within the month of January, 1797.

2d. To exonerate the FUND established by the act, entitled "An act supplementary to the act making provision for the debt of the United States," passed the 8th of May, 1792, from the payment of the rate, per annum, which by the 4th section of the act of the 12th of August, 1790, entitled "An act making provision for the reduction of the public debt," is

reserved, on account of the principal and interest of the moneys authorized, by that act, to be borrowed for purchases of the debt; charging the interest of the moneys so borrowed, upon the revenue from imports and tonnage.

3d. To appropriate to the SAME FUND, *so much* of the revenue from imports and tonnage, as, *together with the other moneys now constituting the fund, and which shall accrue to it by virtue of the foregoing provisions*, shall be sufficient, *from year to year*, with the interest redeemed, to pay the sums which may, of right, be annually paid on account of the principal of such funded stock, as, on the 1st day of January, 1796, shall bear a present interest of 6 per centum per annum, excluding that which shall stand to the credit of the commissioners of the sinking fund, and that which shall stand to the credit of particular States, on account of the balances reported in their favor by the commissioners for settling accounts between the United States and individual States; to continue so appropriated until the whole of the said funded stock shall be redeemed, and, thenceforth, until the whole residue of the present debt of the United States, foreign and domestic, funded and unfunded, shall be redeemed or discharged.

4th. To appropriate to the SAME FUND, the *dividends* on the stock of the Bank of the United States belonging to the United States, reserving, from time to time, *so much thereof* as may be necessary to pay *interest on what shall remain unpaid* of the loan had of the said bank, pursuant to the second section of the act of incorporation, and, also, *so much* of the

duties on imports and tonnage as, *together with those dividends* (deducting what may be necessary to pay interest), shall be sufficient, from year to year, to pay off the instalments of the said loan, hereafter to grow due, and as (the said instalments being paid), *together with any other moneys which on the 1st day of January, 1802, may belong to the said fund not otherwise appropriated*, shall be sufficient, *from year to year*, with the interest redeemed, to pay the sums which may, of right, be annually paid on account of the principal of such funded stock, as, at the expiration of the year 1800, shall begin to bear an interest of six per cent. per annum, excluding that which shall stand to the credit of the commissioners of the SINKING FUND, and that which shall stand to the credit of particular States, on account of the balances reported in their favor, by the commissioners for settling accounts between the United States and individual States; to continue so appropriated, until, as well the last mentioned stock, as the instalments of the loan aforesaid, shall be fully redeemed and discharged, and, thenceforth, until the whole residue of the present debt of the United States, foreign and domestic, funded and unfunded, shall be redeemed and discharged.

5th. To continue the appropriation to the SAME FUND, of the *interest* of the stock which shall be redeemed by virtue of the foregoing provisions (when the full redemption in each case is completed), until the WHOLE of the PRESENT DEBT of the United States, foreign and domestic, funded and unfunded, shall be redeemed, by reimbursement, purchase, or otherwise.

6th. To provide for carrying to the **SAME FUND**, agreeably to the appropriation in the funding act, the proceeds of the sales of the lands of the United States in the Western territory, to be applied according to the said appropriation.

7th. To appropriate to the **SAME FUND**, to be employed for the purposes thereof, all moneys which shall be received for debts due to the United States, antecedent to the present constitution.

8th. To provide that the surpluses of all the current revenues of the United States, which shall remain at the end of any calendar year, beyond the amount of the appropriations charged upon them, and which, during the session of Congress, commencing next thereafter shall not be otherwise specially appropriated or reserved, shall be carried to the **FUND AFORESAID**, to be applied to the purposes thereof.

9th. To provide for paying annually, out of the **SAID FUND**, the sum which may be rightfully paid in each year, toward the redemption of the funded stock, which does or shall bear an interest of six per centum per annum, excluding that which shall stand to the credit of the commissioners of the sinking fund, and that which shall stand to the credit of particular States on account of the balances reported in their favor by the commissioners for settling accounts between the United States and individual States, commencing the redemption of that bearing a present interest on the first of January, 1796, and of that to bear interest after the year 1800 on the first of January, 1802, and pledging, in the firmest

manner, the faith of the United States to the creditors thereof, that the SAID FUND shall be inviolably applied to the purpose of redeeming the stock aforesaid, and afterward to the redemption of the whole of the PRESENT DEBT of the United States, foreign and domestic, funded and unfunded, until the whole shall be fully redeemed and discharged, and to be vested in the commissioners of the sinking fund, as property in trust for the creditors, until the redemption of the whole of the present debt of the United States shall be completed.

Provided, always, that whenever THE FUND shall be more than sufficient for paying off, as they accrue, the remaining instalments of the said loan had of the Bank of the United States, and for the complete and final redemption of the whole of the aforesaid stock, bearing and to bear an interest of six per cent. according to the right reserved for that purpose, and also for the payment of the instalments of the present foreign debt, or of such new loans as may be made thereupon, pursuant to the third proposition, and for the reimbursement, purchase, or redemption of the residue of the present debt of the United States, within the term of thirty years, it shall be lawful for Congress, if at war with any foreign European Power, to apply so much of the excess as they may think fit, the said excess being certified by the COMMISSIONERS OF THE SINKING FUND, toward the expenses of such war; excepting always so much of the said excess as may be requisite to fulfil any contracts which shall have been entered into by the commissioners of the sinking fund, pursuant to the

powers vested in them; and provided that no *second* appropriation of any such *excess* shall derogate from the fund *once reserved* for the redemption or purchase of the said residue of the debt, within the said term of thirty years.

10th. To provide that all reimbursements of the capital of the public debt, foreign and domestic, and of the remaining instalments of the aforesaid loan of the Bank of the United States, be made under the superintendence of the commissioners of the sinking fund, empowering them, with the approbation of the President of the United States, as the instalments of principal become due, to borrow, if necessary, the sums requisite to pay those instalments. Provided, that the ultimate term for the reimbursement of any loan they may make shall not exceed twenty-four years; the interest thereof to be charged—first, upon the interest of the instalments which shall be reimbursed by means thereof, except the instalments of funded six-per-cent. stock; secondly, upon the revenue from imports and tonnage, to make good any deficiency.

VI. PROPOSITION

That power be given to the commissioners of the sinking fund, with the approbation of the President, to borrow, from time to time, such sums as may be necessary in anticipation of the revenues appropriated for the purpose, not exceeding in one year one million of dollars, to be reimbursed within a year from the time of each loan, for the payment of the interest which shall annually accrue on the public debt.

The interest upon each loan to be defrayed out of the permanent revenues.

VII. PROPOSITION

That the internal revenues from snuff and refined sugar, sales at auction, licenses to sell by retail foreign distilled spirits and wines, carriages for the conveyance of persons, be continued to the first day of January, 1800, and that the reimbursement of the principal of the loan of one million dollars, authorized to be borrowed for defraying the expenses of foreign intercourse, be charged upon this fund.

VIII. PROPOSITION

That, in regard to any sum which shall have remained *unexpended* upon any appropriations other than for the payment of the interest of the funded debt and for the purposes of the sinking fund for more than two years after the end of the calendar year in which the act of appropriation shall have been passed, such appropriation shall be deemed to cease and determine—and the sum expended upon it shall be carried to an account to be denominated “THE SURPLUS FUND.” But no appropriation shall be so deemed to have ceased or determined till after the year 1795, unless it shall appear to the Secretary of the Treasury that the object of such appropriation has been fully satisfied; in which case it shall be lawful for him to cause to be carried the unexpended residue thereof to the account aforesaid.

IX. PROPOSITION

That provision be made that all priorities heretofore established in the appropriations for the funded debt, as between the different parts of said debt, shall, after the year 1796, cease with respect to all creditors of the United States who do not, before the expiration of the period, signify their dissent therefrom; and that thenceforth, with the exception only of the debts of those creditors who shall so signify their dissent, the revenues charged with these appropriations shall constitute a common or consolidated fund, chargeable indiscriminately and without priority.

X. PROPOSITION

That provision be made for calling in all outstanding loan-office certificates, certificates called final settlements, and indents of interest, and for issuing in lieu of them other certificates of equivalent tenor, establishing that all which shall not be presented for exchange within the term of two years shall be barred.

Remarks upon the First Proposition

The experiment has now been fully tried, and with nearly complete success, of the disposition of the public creditors to accept the terms offered by the funding act. Those who still decline have probably made a final election to abide by their original contracts.

It remains to fulfil them. This, the moral obliga-

tion of the contracts, the new and peremptory sanction given to them by the present Government, and the essential maxims of public credit, unite to demand; and, while these cogent motives, affecting intimately the permanent character and general interest of the United States, recommend the measure, there is now no longer any momentary inducement, from situation, to procrastinate.

The present advanced state of the national finances, and the inconsiderable magnitude of the still unsubscribed debt, render it of little, if any, consequence to obtain upon it the temporary accommodation of deferring the payment of a part of the interest *accruing* according to contract. This motive apart, and considering the approximation of the period when the payment of interest on the deferred debt is to commence, the chance of benefiting by a fall of the market rate of interest, incident to a provision for the debt on the terms of the contract, which make it redeemable at pleasure, may be found more advantageous to the Government, than the partial postponement of interest encumbered with an abridgment of the right of redemption.

To those who should not rightly appreciate this circumstance, it might seem an objection, that the provision proposed would place those creditors who had not consented to accommodate the Government, upon a better footing than those who had so consented.

But a scruple of this kind is overruled by several considerations.

1st. It is not improbable that a considerable pro-

portion of those who may not have accepted the terms offered by the funding act, are executors and other trustees, who may have doubted their power to accept.

2d. Giving the fullest force to the fact which is the ground of the objection, it is one of those cases in which the general principles that constitute the permanent happiness of society, give the less meritorious advantages over the more meritorious. All the creditors had a right to conform, or not. Those who have not done it have only used their right, and it cannot be matter of objection or prejudice to them. To delay indefinitely a provision for their claims, according to contract, is to annihilate the contract.

The complying creditors cannot with propriety complain. They were informed unequivocally that the proposal of a new loan was referred to their free choice; that the rights of those who did not assent would remain unimpaired; and compensations were offered in the new contracts for the surrender of the old. A plea that an ultimate provision was not relied upon could not be admitted, because it would be to convert a distrust of the faith of the Government into an argument against its being observed towards those who had depended upon it.

But the complying creditors actually received valuable considerations for the modification of their claims, instead of *annual* provision for their interest, which alone their contracts, as they stood previous to the funding act, required; they have had it secured by *adequate funds permanently mortgaged* for its payment.

Instead of the stipulated annuity being *redeemable at pleasure*, whenever a fall in the market rate of interest should render it advantageous to pay off the principal, it has acquired a more *fixed* character by the relinquishment of the right of the Government to redeem, except in certain proportions, and a capacity to increase in capital value, by a declension of the market rate of interest.

Instead of receiving their interest in one payment, at the end of a year, they receive it in quarter-yearly portions, which makes it, in fact, 6.15 per cent. in lieu of the stipulated rate of six per centum.

On the first point it has been argued that, supposing a steady preservation of its faith by the Government, it is indifferent to the creditor whether his demand stands upon the basis of an annual provision, or upon that of mortgaged funds.

This is to substitute theory to fact. As well with regard to a government as to an individual, there is, in the nature of things, an *intrinsic* difference between the value of a debt bottomed on mortgaged funds, and that of a debt resting on what is called, in the one case, and may be called in the other, personal security. The degree of this difference, and some of the circumstances on which it depends, may be different in the two cases, but the reality of its existence can be denied in neither.

Government, being administered by men, is naturally, like individuals, subject to particular impulses, passions, prejudices, vices; of course to inconstancy of views and mutability of conduct.

A kind of property, of which the essence is contract, must necessarily, therefore, be more or less valuable, because more or less secure, in proportion as it is little or much exposed to the influence of that inconstancy or that mutability.

If a provision is to be made by a new resolution every year, that resolution, being always liable to be affected by momentary circumstances, is always casual.

If made once for all, it continues, of course, unless revoked by some positive act, and has for that reason a moral certainty of stability.

But why, it might be asked, if a disposition unfaithful to the public engagements, or unfriendly to the public credit, should exist, would it not operate to produce a violation of a provision made, as well as to prevent the making of one?

The two things are widely different. To *undo*, which is to *act*, and in such a case *to act with violence*, requires more enterprise and vigor, and presupposes greater energy, or a stronger impulse, than *not to do* or to forbear to act. This is particularly true where a number of wills is to concur. Many men who will not rouse to the effort, or encounter the responsibility of doing mischief by positive acts, will readily enough slide into it by a negative conduct—that is, by omitting to act. Many men, merely from easiness of temper or want of active fortitude, will suffer evil to take place which they neither desire nor would themselves commit. In collective bodies, *votes* are necessary to ACTION: absences may produce INACTION. It often

happens that a majority of voices could not be had to a resolution to undo or reverse a thing once done, which there would not be a majority of voices *to do*.

This reasoning acquires tenfold force when applied to a complex government like ours; that is, to a government distributed into departments, acting through different organs, which must concur to give it motion; as, in our Constitution, the HOUSE OF REPRESENTATIVES, the SENATE, and the PRESIDENT.

In delicate and difficult cases, whether to issue in good or ill, a suspension of action is far more natural to such a government than action.

It can hardly happen that all the branches or parts of it can be infected at one time with a common passion, or disposition, so manifestly inimical to justice and the public good, as to prostrate the public credit, by revoking a pledge, given to the creditors. It is far more probable that such a disposition should, at one time, possess one part, at another time, another part. Possessing either part, it might be sufficient to obstruct a provision which was to be made. Without possessing all the parts, it could not subvert one which had been made. The last can scarcely be supposed, except in one of those extraordinary crises of nations which confound all ordinary calculations.

Hence the value of property in public debt, which rests on specified and competent funds, firmly pledged for the satisfaction of the creditor, is intrinsically greater, and to a considerable extent,

than that of property in public debt, which depends on annual provision. Hence, too, a creditor to whom such a pledge was not stipulated, may be justly said to have received a compensation for the relinquishment of a portion of his interest.

On the second point, it has been observed, with less plausibility, that, in this country, where it would be to the advantage of the creditor to receive his principal, rather than a rate of six-per-cent. interest, the abridgment of the right of redemption is of no value.

1st. The proposition is not universally true.

It depends on the particular situation of a creditor, whether it be his interest to be reimbursed his principal or not. It is believed, owing to the impunctuality of collections, that in no part of the United States does fair lending at private interest, upon real security, net six per cent.

2d. As far as it is true, it does not authorize the inference which is drawn, because the creditor cannot demand his principal when it suits him, but must wait till it is convenient for the Government to pay. This convenience might not exist till there was a fall in the market rate of interest, and then it would not be the interest of the creditor to receive.

Unable to exact the principal when he pleases, it is a material point gained to be able to arrest the hand of the Government from paying him when it is his interest not to receive. It is evident, that whenever the rate of interest to which he is entitled shall exceed the market rate, if he cannot be obliged to receive back his principal, or take the market

rate, his stock must rise in value in proportion to the difference and degree of its duration.

Nor is an idea which has been entertained just, that this advantage is remote and contingent, to accrue only to those who may be holders at the time of the fall of interest, at the expense of those who were holders when the funding act passed, many of whom, as it is alleged, being obliged to alienate then or shortly after, suffered loss in the sale, from the postponement of a part of their interest, without benefiting by the supposed equivalents.

The fairness of an equivalent ought never to be tested by the necessities of particular individuals. It ought to be estimated by the general principles of value; by the natural and real operation of things. Admitting, therefore, the suggestion, as to such individuals, to be true, it would decide nothing.

But it is not true. The permanency of a high rate of interest, and the possibility of a future rise of the capital above par, by the fall of the market rate below the stipulated rate, were, to the first holders of stock, circumstances of present value.

Foreigners, especially, whose purchases would necessarily influence the market, would give higher prices for it on these accounts.

And when to this are added the *funding* of the new stock and the payment of the interest *quarter yearly*, there is solid ground for entertaining an opinion that the stock has, from the earliest period, borne a better price in the market than upon the principle of an *annual* payment of six per cent.

on the whole capital depending upon an *annual* provision.

This opinion would be confirmed, if we should take as a guide what actually happened in one or more of the States which made annual provision for the payment of interest upon their debts, at the stipulated rate of six per cent. With this provision the market price of their stock rarely exceeded thirty-three and one third per centum.

It is probable that greater confidence in the ability and constancy of views of the Government of the United States might have given a greater value to their stock in a like situation. But it is not to be doubted that it would have felt, in a great degree, a similar effect of that situation.

This may not appear with respect to the small amount of unsubscribed debt, now to be provided for, and with the advantage of a confirmation of confidence by experience; but it could not have failed to have been very apparent, if the whole debt had been provided for on this plan.

These observations serve to render it probable that the creditors who have accepted the terms offered by the Government have not been injured by the acceptance; that, if they had now an option to change their ground for that which is now proposed for non-subscribers, it would be an ill-judged choice in them to do it; and that, upon these, as well as other accounts, they will have no cause to be dissatisfied with the proposal under consideration.

Let it be added, that, whether the non-subscribers shall fare better or not by that proposal than the

subscribers, it is the interest of all the public creditors upon principle and precedent, that the public faith should be preserved toward those non-subscribers.

But, at the same time, every consideration connected with the question, urges that nothing more should be done for non-subscribers than is positively due to good faith. Accordingly, the proposition contemplates that their debt shall not be funded, but that provision shall be annually made.

With regard to *arrears* of interest, a tenth part only is proposed to be paid on the first of January, 1796. At this rate they would be paid off in ten years.

In strictness, they ought to be immediately discharged. But to have done this on the whole debt would have been impracticable; to do it on what now remains unsubscribed would not only be unequal, but would, at the present moment, obstruct arrangements which are conducive to the general interests of the creditors. The state of the Treasury in succeeding years will enable Congress to decide how far the payment can be accelerated. In the meantime, the creditors have an option to separate these arrears from the principal, and to fund them at three per cent., as has been done generally with regard to interest. The case of a large *arrear* of interest, arising from the inability of a former government, which is the present case, is liable to some peculiar considerations.

A difference is made in the special case of the loan-office certificates, which, by contract, are entitled to

interest of six per cent. on the nominal principal, redeemable only by payment of the specie principal.

This is too disadvantageous a footing for the Government.

The alternative most convenient at this time is to pay off the debt, which is proposed. To elude this contract, would be to sacrifice a very great principle to a very little interest.

The amount will be seen in the statement A.

Remarks upon the Second Proposition

The certificates, or bills of credit, called new emission money, were emitted pursuant to a resolution of Congress, of the 18th of March, 1780, which directs them to be emitted upon the funds of individual States, to bear an interest of five per centum per annum, payable in specie, at the redemption of the bills; or, at the election of the holder, *annually, at the Continental loan offices, in sterling bills drawn by the United States upon their commissioners in Europe,* and pledges the faith of the United States for the payment of the said bills, *in case any State on whose funds they should be emitted, should, by the events of war, be rendered incapable to redeem them;* directing, also, an endorsement to be made upon each bill, in these words: "The United States *insure* the *payment* of the within bill, and will draw bills of exchange for the interest, annually, if demanded, according to a resolution of Congress, of the 18th of March, 1780."

These resolutions, and the endorsement upon the

bills, engage the absolute promise of the United States for the payment of the interest indefinitely, and their eventual guaranty of the principal, in case any State on whose funds the bills should be emitted should, by the events of war, be rendered incapable to redeem them; which is, in effect, though not in form, an absolute guaranty of the principal: for the United States are bound to pay the interest *perpetually* till that is discharged.

Good faith demands that the United States should supply the omissions of the States which issued the bills, by providing themselves, at least, for the interest upon them.

But it is not as easy to pronounce on what terms they ought to be provided for.

On their face, and according to the *unrevoked* resolutions of Congress, they are of specie value, equal to their nominal amount, and bearing five-per-cent. interest.

But it is known that they were issued by different States, at different values, fixed by *previous laws*. The true nature of the contract, therefore, in fact, and the true equity of the case, are, from these circumstances, involved in some question.

A compromise by a new agreement, seems the best road out of the difficulty.

This is the aim of the proposition, which, it is hoped, will, in the main, reasonably consult all interests.

There have been special references of this subject to the Secretary, but he purposely declined a report till the expiration of the term limited by the act,

entitled "An act relative to claims against the United States not barred by any act of limitation, and which have not been already adjusted," passed the 12th of February, 1793, had obviated a danger to which the business was exposed. It is now ascertained that the amount for which the United States shall be in future liable, is \$90,574. The sums subscribed to the loan will, of course, be a charge against the States which respectively issued the bills.

Remarks on the Third Proposition

The payment of interest and instalments of principal of our foreign debt, in the countries where it was contracted, is found by experience to be attended with difficulty, embarrassment, some loss, and a degree of casualty which occasionally puts in jeopardy the national credit. Loans for reimbursement must be made beforehand, as the market suits, and necessarily involve double interest for a greater or less time. The procuring of bills to be remitted for payment of interest cannot be depended upon in coincidence with the periods of payment, which, co-operating with distance, renders inconvenient anticipations necessary.

The remitting in commodities would be liable to other casualties and to some peculiar objections; and whatever mode be adopted, it may be frequently not practicable to deposit in season the necessary funds on the spot without great sacrifices. If, therefore, the place of these payments could, with consent of the creditors, upon an equitable indemnification to them for the transfer, be changed to the

United States, the operation would be in various lights beneficial. It has occurred that the present posture of the affairs of Europe might favor a plan of this kind, and perhaps produce some collateral advantages. Under this idea, an experiment is proposed. The proposed augmentation of interest is intended as an indemnification for the expense and hazard of agencies in this country, delays in remittance, inconvenience of distant negotiation, renunciation of the facilities which attend the receipt of interest at home, risks of loss by exchange, etc., and is calculated on a liberal scale, in order to induce an acceptance of the proposition.

If, instead of an *increase* of interest, the option of an *equivalent* be given by way of premium, in stock bearing an interest of five per cent., it would have attractions for certain creditors, and would facilitate the success of the measure. On strict calculation, the equivalent would be six dollars and fifty-eight cents per one hundred dollars, of the principal subscribed. It is not perceived that the interests of the United States could suffer by allowing the alternative. The fixing of the rate of interest, by postponing the reimbursement to the year 1818, would also be a powerful inducement, and till the period of reimbursement arrives, any surplus of the sinking fund which may exist can be invested in purchases, so as to prevent the progress of the fund being arrested.

It could not be necessary to observe, except for the sake of dispelling jealousy or apprehension on the part of the creditors, *that, while the plan is in experi-*

ment, and afterwards, with regard to all who do not embrace it, every thing is to proceed as heretofore, and as the contracts respecting the debt require.

The auxiliary proposition of giving power to the commissioners of the sinking fund to remit certificates for sale is founded upon a belief that this operation will sometimes be practicable, where direct loans cannot be effected, and will be occasionally a more beneficial mode of remittance than by bills of exchange.

Remark on the Fourth Proposition

The object of this proposition is to give moral certainty to the adequateness of the fund for paying the interest upon the debt, and for its ultimate redemption, making a reasonable allowance for the casualties to which it is exposed.

Remarks on the Fifth Proposition

There is no sentiment which can better deserve the serious attention of the legislators of a country than the one expressed in the speech of the President, which indicates the danger to every government from the progressive accumulation of debt. A tendency to it is, perhaps, the natural disease of all governments; and it is not easy to conceive any thing more likely than this to lead to great and convulsive revolutions of empire.

On the one hand, the exigencies of a nation, creating new causes of expenditure, as well from its own, as from the ambition, rapacity, injustice, intemperance, and folly of other nations, proceed in increasing

and rapid succession. On the other, there is a general propensity in those who administer the affairs of a government, founded in the constitution of man, to shift off the burden from the present to a future day—a propensity which may be expected to be strong in proportion as the form of a state is popular.

To extinguish a debt which exists, and to avoid the contracting more, are ideas always favored by public feeling and opinion: but to pay taxes for the one or the other purpose, which are the only means of avoiding the evil, is always, more or less, unpopular. These contradictions are in human nature; and happy, indeed, would be the lot of a country that should ever want men ready to turn them to the account of their own popularity, or to some other sinister account.

Hence, it is no uncommon spectacle to see the same men clamoring for occasions of expense, when they happen to be in unison with the present humor of the community, whether well or ill directed, declaiming against a public debt, and for the reduction of it as an abstract thesis; yet vehement against every plan of taxation which is proposed to discharge old debts, or to avoid new, by the defraying expenses of exigencies as they emerge.

These unhandsome arts throw artificial embarrassment in the way of the administrators of a government, and, co-operating with the desire which they themselves are too apt to feel to conciliate public favor, by declining to lay even necessary burthens, or with the fear of losing it, by imposing them with

firmness, serve to promote the accumulation of debt, by leaving that which exists without adequate provision for its reimbursement, and by preventing the levying, with energy, new taxes, when new occasions of expense occur. The consequence is, that the public debt swells till its magnitude becomes enormous, and the burthens of the people gradually increase, till their weight becomes intolerable. Of such a state of things, great disorders in the whole political economy, convulsions and revolutions of government, are a natural offspring.

There can be no more sacred obligation, then, on the public agents of a nation, than to guard, with provident foresight and inflexible perseverance, against so mischievous a result. True patriotism and genuine policy cannot, it is respectfully presumed, be better demonstrated by those of the United States, at the present juncture, than by improving, efficaciously, the very favorable situation in which they stand, for extinguishing, with reasonable celerity, the actual debt of the country, and for laying the foundation of a system which may shield posterity from the consequences of the usual improvidence and selfishness of its ancestors, and which, if possible, may give IMMORTALITY TO PUBLIC CREDIT.

Fortunately for the first object, the circumstances in our foreign affairs, which, during the last session, impelled to an extension of the national revenues, have left little more to do than to apply the existing means with decision and efficacy.

The second object will depend on the establishment of wise principles in the application, fitted to

become a permanent precedent in the fiscal system of the country.

The first report of the Secretary on the subject of the public debt, of the 9th of January, 1790, suggests the idea of "incorporating, as a *fundamental maxim* in the system of public credit of the United States, that the *creation* of debt should *always* be *accompanied with the means of extinguishment*; that this is the *true secret for rendering public credit immortal*, and that it is difficult to conceive a situation in which there may not be *an adherence to the maxim*"; and it expresses "an unfeigned solicitude, that *this* may be attempted by the United States, and that they may commence their measures for the establishment of credit with the observance of it." ¹

No opportunity has been lost by the Secretary, as far as he could contribute to the event, to reduce this principle to practice; and important steps towards it have been, from time to time, taken by the Legislature.

But much remains to be done to give it full effect. The present state of things encourages and invites to the consummation of the plan. And the Secretary, about to leave the office he holds, feels it a peculiar duty to make a final effort to promote that invaluable end.

¹ It is understood that the Parliament of Great Britain has, within the last four years, formally adopted as a *standing rule*, the principle of *incorporating, with the creation of debt, the means of extinguishment*. How much easier must the execution of this important principle be to the United States, than to a nation which, before it began, had so deeply mortgaged its resources. Let the United States never have to regret, hereafter, that they postponed too long so provident a precaution.

This is the object of the fifth proposition, aided by the preliminary provisions of the fourth. This proposition aims at two principal points: 1. To constitute a fund sufficient, in every supposable event, for extinguishing the whole of the present debt of the United States, foreign and domestic, in a period not exceeding thirty years. 2. To fix its destination unchangeably, by not only appropriating it permanently, under the direction of commissioners, and vesting it in them as property in trust, but by making its faithful application *a part of the contract with the creditors.*

As to the first point: If the temporary duties on imports be rendered permanent, the annual reservation of six millions of dollars postponed, and if the additional appropriations which are proposed be made to the sinking fund, its intended force will not only be equal to the effect meant to be produced, but it may be hoped that there is scarcely a casualty which can reasonably be taken into calculation, foreign war not excepted, which will occasion a deficiency in the fund.

The whole amount of the duties on imports and tonnage, and upon domestic distilled spirits and stills, estimated now to amount to \$6,079,418 58, besides the dividends on bank stock, and the items which now compose the sinking fund, will then be appropriated, primarily, to the interest upon the public debt, and to the sinking fund; which, together, including the deferred stock, will demand, permanently, from that revenue, \$4,373,836 03 — little more than two thirds of the fund from which they

arise. An expectation may be indulged, that even foreign war, making due allowance for what will always be practicable through neutral Powers, would not occasion a defalcation in the revenues greater than the difference. This competency of the fund is an essential idea. The fulfilment of the object, as far as the uncertainty of human affairs will permit, ought to be superior to casualty.

The necessity of a reliance on auxiliary provisions, always precarious in those situations which affect the productiveness of the public revenues, ought to be, as far as practicable, superseded by the ample nature of the provision.

As to the second point: The intent is to secure, by all the sanctions of which the subject is susceptible, an inviolable application of the fund, according to its destination. No expedients more powerful can be devised for this purpose than to clothe it with the character of *private property*, and to engage absolutely the faith of the government, by making the application of it to the object, *a part of the contract with the creditors*.

But is this necessary?

Its necessity rests on these cogent reasons: The *inviolable* application of an adequate sinking fund is the only practicable security against an excessive accumulation of debt, and the essential basis of a permanent national credit.

Experience has shown, in countries the most attentive to the principles of credit, that a simple appropriation of the sinking fund is not a complete barrier against its being diverted, when immediate

exigencies press. The causes which have been stated with another view, tempt the administrators of government to lay hold of this resource rather than resort to new taxes. This indicates the utility of endeavoring to give, by additional sanctions, inviolability to the fund.

But, will those proposed answer the end?

They are the most efficacious that can be imagined, and they are likely to be entirely efficacious. They cannot be disregarded, without, by breach of faith and contract, destroying credit; and at a juncture, too, when it is most indispensable. The emergencies which induce a diversion of the fund are those in which loans, and, consequently, credit, are most needed.

But will it be safe to put the funds so entirely out of the command of the government? May there not be situations in which the command of it may be requisite to the safety of the State?

This is not conceivable. The amount of the sinking fund will, in the situations which create extraordinary demands for money, be always inconsiderable, compared even with a single year's expenditure. The current revenues of a nation do not, in such cases, suffice. Plunder or credit must supply the deficiency. The first presupposes a subversion of all social order. The second will find its best support and greatest efficacy in adhering steadily to the principles of such a fund. An annuity of seven dollars will pay the interest upon, and discharge a capital of, one hundred dollars, bearing six per cent. interest, in thirty-three and a third years, nearly.

The situation of a country must be not a little exhausted, if it cannot create yearly, by new revenues, during the continuance of a foreign war, an annuity on the above scale sufficient to fund the loans of which it may stand in need. Ten millions of dollars will, with order and economy, maintain in this country an army of fifty thousand men for a year. Viewing our geographical position, is there a prospect of any war expensive beyond this ratio? If not, an annuity of seven hundred thousand dollars, created each year of the war, would suffice. But it would be wise, in such an event, to carry taxation, in the first instance, to the full extent of the ability of the state, which would proportionably contract the necessity for borrowing, and, consequently, the extent of the annuities necessary for loans.

If a nation can find embarrassment in creating the revenues requisite on this scale, it must arise from her having reached a stage when, from the neglect of the principle now inculcated, the mass of her debt has become so enormous as to strain her faculties in order to make a provision for it.

The United States are in a situation altogether different. An inspection of the list of their revenues discovers that they have a large field of resource unexplored. Their youth, and large tracts of unsettled lands, and land in the infancy of improvement, assure them a great and rapid increase of means. Even their actual revenues, without additions, must, with the progress of the country, considerably increase. And, though war may interrupt, the temporary interruption being removed by the restoration of peace,

their increasing productiveness, suspended for a time, must resume its vigor and growth. In a given number of years a considerable augmentation is certain.

The government of this country may, therefore, adopt, fearless of future embarrassment, a principle which, being adopted, will ultimately furnish resources for future exigencies, without an increase of burthen to the community.

To explain this last idea: It will readily be perceived that the funds pledged for paying the interest and sinking the principal of a portion of the debt existing or created at a particular time, will, within a certain period, extinguish that portion of debt.

They will then be liberated, and will be ready for any future use, either to defray current expenditures, or be the basis of new loans, as circumstances may dictate. And, after a course of time, it is a reasonable presumption, that the funds, so successively liberated, will be adequate to new exigencies, as they occur.

Moreover, the last clause of the proposition authorizes the deriving aid from the sinking fund for new loans, whenever the state of the fund admits of it, consistently with the accomplishment of its purposes—that is, when it is sufficient—1st, to make good the payments on account of the principal of the debt as they accrue; 2d, to purchase in the market all that part of the public debts of which there is no stipulation of payment by instalments (as the three per cent. stock) within a period of thirty years.

This, while it secures the extinction of the exist-

ing debt within a reasonable term, by preventing too great a proportion of the public revenue from being tied up by the sinking fund, gives due weight to the consideration of providing for future emergencies.

The same consideration has governed in proposing (instead of the appropriation of a definite sum out of the revenue from imports and tonnage, which, in certain years, would be greater than will be permanently necessary) that the sum to be applied out of that revenue shall be so much from year to year as, with the other items of the sinking fund, will suffice for the object. It has likewise influenced in postponing the redemption of that stock which stands to the credit of certain States, in consequence of the report of the commissioners for settlement of accounts.

Every system of public credit must assume it as a fundamental principle, that the resources of the country are equal to its probable exigencies, and that it will possess ability to pay the debts which it contracts. If this be so, there is no cause to hesitate about the inviolable appropriation of funds to the extinction of an existing debt within no less a term than thirty years.

Indeed, as before intimated, it cannot be doubted that the resources of a credit, built upon a foundation so solid as that which is recommended, will more than replace, even in the earliest stages of our affairs, the use of the additional funds withdrawn from the command of the government to effect it, and, in the eventual operation, will give a more abundant command of funds than it can otherwise have. The successive liberation of the revenues, suc-

cessively pledged, after accomplishing their object, will afford resources that may almost be said to be inexhaustible.

It should be recollected, too, that the public arrangements may, under a great pressure, anticipate the approaching period of such liberation, by intermediate temporary loans, to be replaced by those funds when they are free.

This proposition exemplifies, as to the past, the nature of the maxim which has been supposed capable of giving immortality to credit, namely: that, with the *creation* of debt, should be incorporated the *means* of extinguishment; which means are twofold: 1. *The establishing, at the time of contracting a debt, funds for the reimbursement of the principal*, as well as for the payment of interest within a determinate period. 2. *The making it a part of the contract*, that the fund, so established, shall be inviolably applied to the object.

It is believed that it would be happy for the United States, if Congress would adopt this principle as a rule in all future loans—never to be departed from; and a good evidence of this determination will be, to apply it to the past.

This would be, at the same time, an antidote against what may be pronounced the most plausible objections to the system of *funding* public debts; which are, that, by facilitating the means of supporting expense, they encourage to enterprises which produce it; and, by furnishing in credit a substitute for revenue, likely to be too freely used to avoid the odium of laying new taxes, they occasion a tendency

to run in debt. Though these objections to funding systems, which give the greatest possible energy to public credit, are a great source of national security, strength, and prosperity, are very similar to those which speculative men urge against national and individual opulence, drawn from its abuses; and though, perhaps, upon a careful analysis of facts, they would be found to have much less support in them than is imagined, attributing to those systems effects which are to be ascribed, more truly, to the passions of men, and perhaps to the genius of particular governments; yet, as they are not wholly unfounded, it is desirable to guard, as far as possible, against the dangers which they suppose, without renouncing the advantages which these systems undoubtedly afford.

It will readily be seen, that the maxim of making concurrent provision for the principal as well as interest, in the act of contracting debt, if by *precedent* and *habit* it can be rendered a rule of administration, by implicating a greater portion of the revenue in every such operation than would be requisite for a mere provision for interest, will control proportionably the disposition to defer the burthen to futurity, and create a greater necessity for circumspection in incurring expense.

It is, probably, the true expedient for uniting a due regard to the present accommodation of the community, with a due care not to overburthen posterity—the full energy of public credit, with a salutary restraint upon the abuses of it.

To this explanation of the general principles of the

fifth proposition, it may be proper to add some brief notes on particular parts of it.

It is proposed that the redemption of the present six per cent. stock shall commence on the 1st of January, 1796. This time of commencement is recommended by several reasons: 1. It ought to be such as to admit of sufficient notice to distant creditors. 2. It will favor order, to date the commencement of every new pecuniary operation, where there is an option, and no particular reason to the contrary, with the commencement of the natural year. 3. The moment of payment presupposes that the annuity to be paid has actually accrued, which will not be the case till the end of the present year. 4. The small delay, by not forcing the means, will facilitate the future execution.

It is a part of the plan to make provision for reimbursing the remaining instalments of the two-million loan, had of the Bank of the United States, pursuant to the act of incorporation. The preceding instalments have been reimbursed out of the proceeds of foreign loans. This resource cannot, in future, be relied upon; and for such a purpose it is not as eligible as a domestic one, though circumstances have hitherto dictated a recurrence to it. By making the dividends on the stock auxiliary for this purpose to the revenue from taxes, the object is effected with little more than half the sum from that revenue; and, in the end, a fund is formed from the dividends which, with a small addition, suffices for the redemption of the deferred stock. As these instalments are yearly falling due, and must be paid as they

accrue, it is essential that a provision for them be contemplated in the general arrangement requisite to the completion of our system of credit. There is, perhaps, no easy alternative to what is proposed, except the sale of the stock. But, waiving other weighty considerations against such a measure, it is, in the view of a true economy, liable to the most solid objections.

It is morally certain that the dividends on the stock will increase, and the value of the capital, from this and collateral causes, more than proportionably. There is no momentary urgency to induce the relinquishment of this future advantage. To sell at present would be to abandon the difference without necessity. It cannot be expedient in a government to part with a capital which, at the time, produces as great or a greater revenue than can be realized from the proceeds of a sale, however invested; and which has an inherent tendency to future augmentation. The measure, too, would be to renounce, or lessen, a most convenient resource for forming the redeeming fund of the deferred stock.

It is proposed to carry the proceeds of the sales of the Western lands to the sinking fund. This is to execute the intention of the funding act, which has not organized the mode of application; and it has the advantage of combining in one system all the provisions for extinguishing the debt.

It is proposed that all surpluses of revenue shall, at a certain time, be carried to the use of the sinking fund. This is to extend and give *effect* to a principle

which has already received the legislative sanction. It was necessary to fix a time when the appropriation of the surplus should become absolute, and that this should be consistent with a due opportunity to provide for the exigencies of the public service. Both these considerations have been consulted. This measure has, besides, reference to a more speedy redemption of the debt than it appears prudent to attempt by an *absolute appropriation* of more extensive funds. And the legislators of to-day would be entitled to the lasting gratitude of their country, if they would extend this auxiliary resource by all the means which are consistent with a due regard to the present accommodation of their constituents.

It is proposed to authorize the commissioners of the sinking fund to provide, by new loans, for the reimbursement of the instalments which, from time to time, accrue. This is on the ground that it is essential to the perfection of the system of redemption, that all the means of ultimate execution should be organized in it, and that there should be no need of future provisions.

The last clause of the proposition excepts from the operation of that clause the interest on the six per cent. stock. This is because that interest is destined to form the accumulations for paying the successive instalments of the principal of that stock, which increase each year in a ratio to the interest liberated by each payment.

The statement E exhibits the course of the sinking fund, as proposed to be established.

Remarks on the Sixth Proposition

This will be a useful and important provision. It has reference to a circumstance repeatedly adverted to—the long credits given upon the principal branches of revenue; from which it happens, that, though the *fund itself*, or the *product* of the revenue, is more than adequate to an appropriation, yet the receipts upon it come too slowly into the treasury to answer the end, without anticipation by temporary loans. Its propriety depends on the principle suggested under the last head, of having all the means of complete execution organized in the system of public credit.

Remarks on the Seventh Proposition

It is a good rule of caution, that no more of the public revenues should be rendered permanent, than is necessary to give moral certainty to the provisions which may be regarded as the pillars of public credit. This idea will, it is believed, be satisfied, by giving permanency to the now temporary duties on imports. Accordingly, it is only proposed to extend the duties, mentioned in this proposition to the year 1800, and thence, to the end of the next ensuing session of Congress; which is on the ground that they ought to be commensurate in duration with the objects which they are to accomplish, and no more.

It has been already noticed, that they are at present chargeable, together with the temporary duties on imports, laid in the last session, with an appropriation of 1,292,137 dollars and thirty-eight

cents, and with the interest of one million of dollars, authorized to be borrowed with a view to foreign intercourse; having a special eye to an object very interesting to the commerce and feelings of the United States.

This business wants a further arrangement; standing, at present, upon a vague and inefficient footing. The reimbursement of the loan is not adequately provided for, neither is the interest, this being predicated on funds which, in their present form, would probably expire after a product of two years.

According to the fifth proposition, the temporary duties on imports, after the above-mentioned appropriation of 1,292,137 dollars and thirty-eight cents shall have been satisfied, will become permanently charged with the interests on the public debt, the sinking fund, and the annual reservation of \$600,000, for the support of government.

If the duties mentioned in the sixth proposition are continued till the first of January, 1800, and the reimbursement of the principal of the loan, as well as the interest, is referred to them, two good purposes will be answered: the obtaining the loan will be facilitated, and its complete reimbursement will be effected within the term allotted, without an augmentation of the *permanent* debt of the country. This makes allowance for fulfilling the appropriation for the current service already charged upon this fund.

It is presumed to be a conclusive reason in favor of the proposition, that it aims at preventing an increase of permanent debt. If services of this kind, when the United States are at peace (at least with

civilized Powers), are made causes of permanent loans, the progress of new debt will easily exceed the extinction of old.

It appears desirable that there should be a steady effort, *as a rule of administration*, not to increase the permanent debt of the country by permanent loans, except when it is inevitable, by the existence of a war with some European Power.

The comparative view of revenue and expenditure (statement F) establishes, satisfactorily, that these duties cannot be dispensed with, unless there be a substitute, if the redemption of the public debt is to be seriously entered upon; and it is believed that there cannot be devised objects of revenue more proper in themselves, nor more generally acceptable to the people. Whatever interested parties may allege, it seems self-evident that there can hardly be a reasonable question, except as to the best mode of collection. The objection, that part of them falls on manufactures, has no weight. The manufactures on which they fall are *complete luxuries* and *completely established*; consequently, fit objects of revenue. The increased duties on the rival foreign articles are a full protection to the manufacture. Whatever may be the appearances in the infancy of the tax, it is certain, in principle, that it will finally fall on the consumer, as generally as duties on imported commodities.

Remarks on the Eighth Proposition

This is to terminate an embarrassment which has been experienced. Appropriations are frequently

made for objects, the extent of which is not precisely known, or in a degree casual. To leave them indefinite, as to time, is sometimes to tie up, unnecessarily, a portion of the public funds, which may, ultimately, not be wanted at all for the purpose of the original appropriation.

It will do away this inconvenience, and promote perspicuity in the treasury accounts of appropriations, if an ultimate period is fixed when each appropriation shall be deemed to have ceased. Should further appropriations appear necessary for the same objects, new estimates can be presented, and new appropriations made.

The designating an account with a denomination known in the laws, to which the surpluses are to be carried, will facilitate future legislative dispositions of the resulting fund. It is, however, essential to the system of public credit, that this should be with the exceptions contained in the proposition.

Remarks on the Ninth Proposition

This proposition is calculated to give simplicity to the public accounts of stock and revenue, which will conduce to correctness, dispatch, and economy. As the revenues are manifestly more than adequate to the claims of all the creditors, they, none of them, have any interest in the distinctions which now exist, and which grew out of the course of the business; and the rights of none of them will be affected, because all who choose may continue on their former ground, by signifying their dissent to the present plan. It is, however, presumed, there will be no such dissent.

Remarks on the Tenth Proposition

It is important to the fiscal calculations, to ascertain, positively, the extent of every portion of the public debt. At present, the amount of these several items of it is deduced from accounts of the late war, of various officers and offices in some instances, conducted with little order. There is not, therefore, sufficient certainty; indeed, it is probable, from the length of time that has elapsed without their appearing, that the computed amount exceeds the real.

Besides, they are, from their nature, subject to forgeries and counterfeits; which implies a danger of loss to the public, till their circulation is finally terminated. The proposition, accordingly, besides the obtaining of better information, aims at obviating this danger.

Allowing sufficient time for bringing them in to be exchanged for certificates of equivalent tenor, while it is a measure tending to public information and security, it can be liable to no reasonable objection on the part of the creditors.

The Secretary of the Treasury has reserved for the conclusion of this report, a proposition which appears to him of great importance to the public credit, and which, after some preliminary observations, will be offered to consideration. It relates to the right of taxing the public funds, and to that of sequestering them in time of war.

A proposition, on either of those points would have been deemed superfluous, had there never been discussions asserting a right to do the one and the

other, and even the expediency of exercising that right. The negative of both the pretensions, from the habit of regarding it as incapable of being disputed, had acquired, in the mind of the Secretary, so much the force of an axiom as to have precluded even the mention of the subject in the plan which he originally submitted for funding the public debt. He should, otherwise, have thought it an indispensable duty to suggest, as a matter of primary consequence to the system of credit contemplated in the plan, the express renunciation of those pretensions; for they are (as he believes) not only unwarranted by principle or usage, but subversive of the sound maxims of public credit. A persuasion that this would always be a *truth granted* in the councils of the United States, is his apology for the omission.

Even now he should think it useless to depart from his silence on the point, had not the discussions alluded to created some alarm in places where all the circumstances are not well understood, which it is the interest of the country to dispel. The confidence justly to be reposed in the collective wisdom of this government, forbids the supposition, by one acquainted with its constitution, that the security of the creditor can need, in this particular, a further sanction. It is presumed to be impossible, that any *final* act can ever give so deep a wound to the national interest and character, as to derogate from a principle which may be placed among the most sacred in the administration of a government.

Is there a right in a government to tax its own funds?

The pretence of this right is deduced from the general right of the legislative power to make all the property of the state contributory to its own exigencies.

But this right is obviously liable to be restricted by the *engagements* of the *government*; it cannot be justly exercised in contravention of them; they must form an exception. It will not be denied, that the general right in question could, and would, be abridged, by an express promise not to tax the funds. This promise, indeed, has not been given in terms, but it has been given in substance. When an individual lends money to the state, the state stipulates to repay him the principal lent, with a certain interest, or to pay a certain interest, indefinitely, till the principal is reimbursed; or it stipulates something equivalent, in another form. In our case, the stipulation is in the second form.

To tax the funds, is manifestly either to *take*, or to *keep back*, a portion of the principal or interest *stipulated to be paid*.

To do this, on whatever pretext, is *not to do what is expressly promised*; it is not to pay that precise principal, or that precise interest, which has been engaged to be paid; it is, therefore, to violate the promise given to the lender.

But is not the stipulation to the lender, a tacit reservation of the general right of the Legislature to raise contributions on the property of the state?

This cannot be supposed—because it involves two contradictory things; an *obligation to do*, and a *right not to do*. An obligation to *pay a certain sum*, and

a *right to retain it in the shape of a tax*. It is against the rules, both of law and reason, to admit, by *implication*, in the construction of a contract, a principal which goes in destruction of it.

The government, by such a construction, would be made to say to the lender: "I want a sum of money, for a national purpose, which all the citizens ought to contribute proportionably, but it will be more convenient to them, and to me, to borrow the money of you. If you will lend it, I promise you faithfully, to allow you a *certain rate* of interest, while I keep the money, and to *reimburse the principal* within a determinate period, *except so much of the one and the other* as I may think fit to *withhold, in the shape of a tax*."

Is such a construction either natural or rational? Does it not, in fact, nullify the promise by the reservation of a right not to perform it?

Is it to be presumed, without being expressed, that such can be the understanding of a lender, when he parts with his money to a government?

The contrary is so much the more presumable that nothing short of an express reservation can support the pretension to tax the funds.

It may be replied, that the creditor might be willing to rely upon the equity of the government, not to abuse its right, by exacting from him excessive contributions.

This, if true, does not obviate the difficulty of supposing the coexistence of an *obligation* and a *right*, destructive the one of the other, in interpreting the sense of a contract, when nothing of the kind is said.

It is possible that a creditor might be willing so to

contract; yet it is still necessary, in order to determine that he has done it, to find some provisions or expressions in the contract, indicating the intention to render what is stipulated compatible with what is reserved. But it is not probable that an individual would be willing to lend upon such terms. He would justly apprehend, that, in great emergencies, a right having no *limit* but the *opinion* of the party possessed of the *power*, would be abused, that the convenience of laying hold of a fund already prepared and at hand, supported by a claim of right, would be a temptation to abuse, not easy to be resisted. However well disposed to contribute, in common with his fellow-citizens, on all the ordinary objects of property or income, he would be unwilling to subject himself to a special burthen, in the peculiar character of creditor of the state. He would prefer to employ his money in other ways; even to lend it to private persons, where it might be more likely to escape the hand of the fiscal power.

Let the question be tried by another analysis.

Public debt can scarcely, in legal phrase, be defined either as *property* in possession or in action. It is evidently not the first, till it is reduced to possession by payment. To be the second, would suppose a *legal power to compel* payment by *suit*. Does such a power exist? The true definition of public debt is *a property subsisting in the faith of the government*. Its essence is *promise*. Its definite value depends upon the reliance that the promise will be definitely fulfilled. Can the government rightfully tax its promise? Can it put its faith under contribution?

Where or *what* is the value of the debt, if such a right exists?

Suppose the government to contract with an individual to convey to him a hundred acres of land, upon the condition of paying a hundred dollars. When he came to pay the hundred dollars and demand his title, could the government require of him to pay fifty more as a tax upon the land, before it would consent to give him the title? Who would not pronounce this to be a breach of contract—a fraud—which nothing could disguise?

This case is parallel with that under examination, with circumstances that fortify the right of the lending creditor.

The government agrees with him that, for one hundred dollars, which he delivers to the government, it will deliver to him, at the end of each year, six dollars. Here the six dollars *to be delivered* answer to the land *to be conveyed*, with this stronger ground of right, that the consideration for them has actually been given and received. Yet, when the creditor comes to demand his six dollars, he is told that he cannot have them, except with the reservation of one dollar as a tax upon the six, or that he cannot have them, except upon the condition of returning one dollar as that tax. What is this but to say that his title to the money in this case, as to the land in the other, must depend upon his paying or allowing a *further* consideration for it, not contemplated in the contract? Can there be a doubt that this, also, would be a breach of contract—a fraud?

The true rule of every case of property, founded on

contract with the government, is this: It must first be reduced into possession, and then it will become subject, in common with other similar property, to the right of the government to raise contributions upon it. It may be said that the government may fulfil this principle by paying the interest with one hand, and taking back the amount of the tax with the other. But to this the answer is that, to comply truly with the rule, the tax must be upon all the money of the community, not upon the particular portion of it which is paid to the public creditors; and it ought, besides, to be so regulated as not to include a *lien* of the tax upon the fund. The creditor should be no otherwise acted upon, than as every other possessor of *money*; and, consequently, the money he receives from the public can then only be a fit subject of taxation when it is entirely separated and thrown, undistinguished, into the common mass. A different practice would amount to an evasion of the principle contended for, and to oppression. A rent, or annuity, liable before it passes, or in the act of passing, or at the moment of passing, from one proprietor to another, to a deduction, or drawback, at the pleasure of the party from whom it is to pass, is an imaginary thing, destitute both of shape and substance.

When a government enters into contract with an individual, it deposes as to the matter of the contract its constitutional authority, and exchanges the character of legislator for that of a moral agent, with the same rights and obligations as an individual. Its promises may be justly considered as excepted

out of its *power to legislate*, unless in aid of them. It is, in theory, impossible to reconcile the two ideas of a *promise which obliges* with a *power to make a law which can vary the effect of it*. This is the great principle that governs the question, and abridges the general right of the government to lay taxes, excepting out of it a species of property which subsists only in its promise.

There are persons who, admitting the general rule, conceive a distinction to exist between a tax upon the funds, which must be paid at all events, and a tax upon alienations of them, which will only be paid when they are transferred from one to another. The latter they think justifiable, because it is in the option of the creditor to avoid the tax by avoiding the alienation. But the difference between the two cases is only a difference in the degree of violation.

The stock, in its creation, is made transferable. This quality constitutes a material part of its value, and the existence of it is a part of the contract with the government, which has undertaken, itself, to conduct the operation of transferring by its own officers, and consequently at its own expense. It is as completely a breach of contract to derogate from this quality, in diminution of the value of stock, by encumbering the transfer with a charge or tax, as it is to take back, in the same shape, a portion of the principal or interest. It is obvious, too, that this may be carried so far as essentially to destroy the transferable capacity. But what is a tax upon transfers, other than the faculty of taking away from the actual proprietor of stock a portion of his principal,

whenever his interests or his necessities demand a transfer, in derogation from the full enjoyment of the right to transfer, and from the express promise of the government to pay to him or his alienee? For it is upon the seller, not upon the buyer, that such a tax will fall. And where is the substantial difference, on the ground of contract, between this and a direct tax upon the fund itself? The value of it is as certainly impaired by the one as by the other.

But shall the proprietor of money in the funds, then, be exempt from his proportion of the burthens which other citizens bear?

This will not be the consequence of the principle. As a consumer, of which his income is the instrument, he will pay his proportion of the taxes on consumption. As a holder of any other species of property procured by that income, or otherwise, which is liable to a tax, he must also contribute his proportion.

But, without undue refinement, the lender of money to the public may be affirmed to have paid his tax when he lends his money.

Relying upon the engagement of the government, express or implied, that he will receive what is promised him, without defalcation, he is content with a less interest than he would take if subject to any such defalcation, and especially if it was to be arbitrary as to its extent. In this lower rate of interest he may be truly said to pay his tax, or to purchase an exemption from it.

Here, also, we find what is decisive on the point of expediency.

If the government had a right to tax its funds, the exercise of that right would cost much more than it was worth. The money-lender would exact exorbitant premiums, not only as an indemnification for the use which the government might probably make of its right, and which, in practice, would be likely to be qualified by some regard to equality of contribution, but as an equivalent for insurance against the risk or possibility of a more extensive use. Hence the government would be likely to pay much more in premiums upon its loans than it would draw back in taxes; and the former being supposed but equal to the latter, there would be no advantage in exercising the right.

But it will be, perhaps, more safe to affirm that there would be no borrowing at all upon such terms. The first precedent of a tax upon the funds might be expected to compel the government to an express renunciation of the right in every future loan. Solid capitalists would not be much inclined to adventure their money upon so precarious a footing as is implied in a power of taxing their credits.

These reflections lead readily to an estimate of the impressions which would be produced by the example of an imposition on the funds. Regarded either as a breach of contract, or as a deviation from the sound maxims of credit, the effect upon it would be nearly equally fatal. Whatever might be excused to a time of revolution, to a defect of means, or to some extraordinary peculiarity of situation, no excuse would be admitted for a deliberate departure from principles, at a time, too, of national

prosperity, in a flourishing state of the finances, after the foundations of a regular system had been laid. The departure would argue an incorrectness, an instability, or a depravity of views, calculated to give a lasting shock to public credit.

The United States must, henceforth, tread with the most cautious steps.

A renunciation of the right, in future, might not speedily heal the wound which an example of its exercise had given. Durable suspicions might fasten on the wisdom or the integrity of the government, which might occasion to it no inconsiderable loss and embarrassment, before a course of contrary experience would obliterate them.

The right of a government to sequester or confiscate property, in its funds, in time of war, involves considerations analogous to those which regard the right of taxing them. Whether the foreigner be, himself, the original lender, or the proprietor of stock, in its constitution *transferable without discrimination*, he stands upon equal ground with the citizen. He has an equal claim upon the faith of the government.

In the second case, as the substitute of the original lender, the promise made attaches immediately upon him. Indeed, the certificates which issue upon every transfer, and which may be called the public bonds, designate him as the creditor, and expressly invest him with the correspondent rights.

To sequester or confiscate the stock, is as effectually a breach of the contract to pay, as to absorb it by a tax. It is to annihilate the promise, under the sanction of which the foreigner became a proprietor.

But, does not the general right of war, to seize and confiscate enemy property, extend to the property of the citizens of one nation in the funds of another—the two nations being at war with each other?

Resorting to principle as the guide, this question may, on solid grounds, be answered in the negative.

The right to seize and confiscate individual property, in national wars, excludes all those cases where the individual derives his title from the enemy sovereign or nation: for the right to property always implies the right to be protected and secured in the enjoyment of that property; and a nation, by the very act of permitting the citizen of a foreign country to acquire property within its territory, whether to lands, funds, or to any other thing, tacitly engages to give protection and security to that property, and to allow him as full enjoyment of it as any other proprietor—an engagement which no state of things between the two nations can justly or reasonably affect. Though politically right, that, in wars between nations, the property of private persons, which depend on the *laws of their own country*, or on *circumstances foreign to the nation with which their own is at war*, should be subject to seizure and confiscation by the enemy nation; yet it is both politically and morally wrong, that this should extend to property acquired under the faith of the government, and the laws of that enemy nation.

When the government enters into a contract with the citizen of a foreign country, it considers him as *an individual in a state of nature, and contracts with*

him as such. It does not contract with him as *the member of another society.*

The contracts, therefore, with him, cannot be affected by his political relations to that society. War, whatever right it may give over his other property, can give none over that which he derives from those contracts. The character in which they are made with him, the faith pledged to him personally, virtually exempt it.

This principle, which seems critically correct, would exempt as well the income as the capital of the property. It protects the use as effectually as the thing. What, in fact, is property, but a fiction, without the beneficial use of it? In many cases, indeed, the *income or annuity* is the property itself. And though general usage may control the principle, it can only be as far as the usage clearly goes. It must not be extended by analogy.

Some of the most approved publicists, admitting the principle, qualify it with regard to the income of lands, which they say may be sequestered "to hinder the remittance of it to the enemy's country."

But the same authority affirms that a state of war "does not so much *as touch* the sums which it owes to the enemy. *Everywhere*, in case of a war, funds credited to the public, are exempt from confiscation and *seizure*." These expressions clearly exclude sequestration as well as confiscation.

The former no less than the latter, would be inconsistent with the declarations that a state of war does not *so much as touch* the sums which it owes to the enemy, and, that funds credited to the public

are exempt from *seizure*. And, on full inquiry, it is believed that the suggestion, thus understood, is founded in fact.

Usage, then, however it may deviate in other particulars, in respect to public funds, concurs with principle in pronouncing, that they cannot rightfully be sequestered in time of war.

The usages of war, still savor too much of the ferocious maxims of the times, when war was the chief occupation of man. Enlightened reason would never have pronounced that the persons or property of foreigners, found in a country at the breaking out of a war between that country and their own, were liable to any of the rigors which a state of war authorizes against the persons and goods of the enemy. It would have decreed to them, an inviolable sanctuary in the faith of those permissions and those laws, by which themselves and their property had come under the jurisdiction where they were found. It would have rejected the treachery of converting the indulgences, and even rights of a previous state of amity, into snares for innocent individuals.

Happily, however, the practice of later times has left several of those maxims little more than points of obsolete doctrine. They still retain their rank in theory; but usage has introduced so many qualifications, as nearly to destroy their operation.

This appears from the acknowledgement of writers, from the barrenness of modern history in examples of the application of those doctrines, from the opinions known to be generally current in Europe, and from a

variety of articles which are constant formulas in treaties of the present century.

The United States are every way interested in the mitigation of the rigor of the ancient maxims of war. They cannot better demonstrate their wisdom, than by their moderation in this respect. Particularly interested in maintaining, in their greatest purity and energy, the principles of credit, they cannot too strictly adhere to all the relaxations of those maxims which favor the rights of creditors. No temporary advantage can compensate for the evils of a different course of conduct.

Credit, public and private, is of the greatest consequence to every country. Of this, it might be emphatically called the invigorating principle. No well-informed man can cast a retrospective eye over the progress of the United States, from their infancy to the present period, without being convinced that they owe, in a great degree, to the fostering influence of credit, their present mature growth. This credit has been of a mixed nature, mercantile and public, foreign and domestic. Credit abroad was the trunk of our mercantile credit, from which issued ramifications that nourished all the parts of domestic labor and industry. The bills of credit emitted, from time to time, by the different local governments, which passed current as money, co-operated with that resource. Their united force, quickening the energies and bringing into action the capacities for improvement of a new country, was highly instrumental in accelerating its growth.

Credit, too, animated and supported by the general

zeal, had a great share in accomplishing, without such violent expedients, as, generating universal distress, would have endangered the issue, that Revolution, of which we are so justly proud, and to which we are so greatly indebted.

Credit, likewise, may, no doubt, claim a principal agency in that increase of national and individual welfare since the establishment of the present government, which is so generally felt and acknowledged, though the true causes of it are not as generally understood. It is the constant auxiliary of almost every public operation; has been an indispensable one in those measures by which our frontiers have been defended; and it would not be difficult to demonstrate that, in a recent and delicate instance, it has materially contributed to the safety of the state.

There can be no time, no state of things, in which credit is not essential to a nation, especially as long as nations in general continue to use it as a resource in war. It is impossible for a country to contend, on equal terms, or to be secure against the enterprises of other nations, without being able equally with them to avail itself of this important resource; and to a young country, with moderate pecuniary capital, and not a very various industry, it is still more necessary than to countries more advanced in both. A truth not less weighty for being obvious and frequently noticed.

Public credit has been well defined to be "a faculty to borrow, at pleasure, considerable sums on moderate terms; the art of distributing, over a succession

of years, the extraordinary efforts, found indispensable in one; a means of accelerating the prompt employment of all the abilities of a nation, and even of disposing of a part of the overplus of others."

This just and ingenious definition condenses to a point the principal arguments in favor of public credit, and displays its immense importance.

Let any man consult the actual course of our pecuniary operations, and let him then say whether credit be not eminently useful. Let him imagine the expense of a single campaign in a war with a great European Power; and let him then pronounce whether credit would not be indispensable. Let him decide whether it would be practicable, at all, to raise the necessary sum by taxes within the year, and let him judge what would be the degree of distress and oppression, which the attempt would occasion to the community. He cannot but conclude that war, without credit, would be more than a great calamity—would be ruin.

But credit is not only one of the main pillars of the public safety; it is among the principal engines of useful enterprise and internal improvement. As a substitute for capital, it is a little less useful than gold or silver, in agriculture, in commerce, in the manufacturing and mechanic arts.

The proof of this needs no labored deduction. It is matter of daily experience in the most familiar pursuits. One man wishes to take up and cultivate a piece of land; he purchases upon *credit*, and, in time, pays the purchase money out of the produce of the soil improved by his labor. Another sets up

in trade; in the credit founded upon a fair character, he seeks, and often finds, the means of becoming, at length, a wealthy merchant. A third commences business as manufacturer or mechanic, with skill, but without money. It is by credit that he is enabled to procure the tools, the materials, and even the subsistence of which he stands in need, until his industry has supplied him with capital; and, even then, he derives, from an established and increased credit, the means of extending his undertakings.

Among the circumstances which recommend credit, and indicate its importance in the whole system of internal exertion and amelioration, it is impossible to pass, unnoticed, its unquestionable tendency to moderate the rate of interest—a circumstance of infinite value in all the operations of labor and industry.

If the individual capital of this country has become more adequate to its exigencies than formerly, it is because individuals have found new resources in the public *credit*—in the funds to which that has given value and activity. Let public credit be prostrated, and the deficiency will be greater than before. Public and private credit are closely allied, if not inseparable. There is, perhaps, no example of the one being in a flourishing, where the other was in a bad state. A shock to public credit would, therefore, not only take away the additional means which it has furnished, but by the derangements, disorders, distrusters, and false principles which it would engender and disseminate, would diminish the antecedent resources of private credit.

The United States possess an immense mass of improvable matter; the development of it, continually making, may be said to enlarge the field of improvement as it progresses; and, though the active capital of the country has, no doubt, considerably increased, it is probable that it does not bear, at present, a much greater proportion to the objects of employment than it has done at any former period. Credit, upon this hypothesis, of every kind, is nearly as necessary to us now, as it ever was. But, at least, it may be affirmed with absolute certainty that, to a country so situated, credit is peculiarly useful and important.

If the United States observe, with delicate caution, the maxims of credit, as well toward foreigners as their own citizens, in connection with the general principles of an upright, stable, and systematic administration, the strong attractions which they present to foreign capital will be likely to insure them the command of as much as they may want, in addition to their own, for every species of internal amelioration.

Can it be doubted that they would derive from this, in a course of time, advantages incomparably greater than any, however tempting, that could partially result from a disregard of those maxims, or from the exercise of a questionable right, which should even appear to derogate from them?

Credit is an *entire* thing. Every part of it has the nicest sympathy with every other part; wound one limb, and the whole tree shrinks and decays.

The security of each creditor is inseparable from

the security of all creditors. The boundary between foreigner and citizen would not be deemed a sufficient barrier against extending the precedent of an invasion of the rights of the former to the latter. The most judicious and cautions would be most apt to reason thus, and would only look for stronger shades of apparent necessity or expediency to govern the extension. And, in affairs of credit, the opinion of the judicious and cautions may be expected to prevail. Hence the government, by sequestering the property of foreign citizens in the public funds at the commencement of a war, would impair, at least, if not destroy, that credit which is the best resource in war.

It is in vain to attempt to disparage credit by objecting to its abuses. What is there not liable to abuse or misuse? The precious metals, those great springs of labor and industry, are also the ministers of extravagance, luxury, and corruption. Commerce, the nurse of agriculture and manufactures, if overdriven, leads to bankruptcy and distress. A fertile soil, the principal source of human comfort, not unfrequently begets indolence and effeminacy. Even liberty itself, degenerating into licentiousness, produces a frightful complication of ills, and works its own destruction.

It is wisdom, in every case, to cherish whatever is useful, and guard against its abuse. It will be the truest policy of the United States to give all possible energy to public credit, by a firm adherence to its strictest maxims; and yet to avoid the ills of an excessive employment of it by true economy and

system in the public expenditures; by steadily cultivating peace; and by using sincere, efficient, and persevering endeavors to diminish present debts, prevent the accumulation of new, and secure the discharge, within a reasonable period, of such as it may be at any time matter of necessity to contract. It will be wise to cultivate and foster private credit by an exemplary observance of the principles of public credit, and to guard against the misuse of the former by a speedy and vigorous administration of justice, and by taking away every temptation to run in debt, founded in the hope of evading the just claims of creditors.

As an honorable evidence of this disposition, and with a view to quite the alarms which have been excited, and to silence forever a question which can never be agitated without serious inconvenience, the Secretary of the Treasury, in the last place, respectfully submits:

That there be an express renunciation, by law, of all pretension of right to tax the public funds, or to sequester, at any time, or on any pretext, the property which foreign citizens may hold therein.

This will be particularly essential to the success of the plan for converting the foreign into domestic debt; as the present contracts for the Amsterdam and Antwerp debt contain an equivalent stipulation, and there is no prospect that the creditors would consent to a change, but upon the condition of a like stipulation.

In the commencement of this report, it was the intention to submit some propositions for the im-

provement of the several branches of the public revenue; but it is deemed advisable to reserve this part of the subject for a future communication.

All which is respectfully submitted.

ALEXANDER HAMILTON,
*Secretary of the Treasury.*¹

IMPROVEMENT OF THE REVENUE

Communicated to the House of Representatives, February 2, 1795.

TREASURY DEPARTMENT, January 31, 1795.

The Secretary of the Treasury respectfully makes the following report to the House of Representatives:

According to the present laws, imposing duties on articles imported into the United States, not much short of one third of the whole amount of the duties is derived from articles rated *ad valorem*.

In other nations, where this branch of revenue, as with us, is of principal or very considerable consequence, and where no peculiarity of situation has tended to keep the rates of duty low, experience has led to contract more and more the number of articles rated *ad valorem*, and of course to extend the number

¹ This report was Hamilton's last message to the American people in closing his career as Secretary of the Treasury. It is quite as able as the first report, but less known because the first portion involves so many details. It reviews the whole financial policy in a masterly manner, and the last part, which deals with the taxation of public funds and their sequestration in case of war, is an appeal and an argument in behalf of a high public credit, especially with reference to the United States, which has never been surpassed. The high tone of the views set forth and the eloquence and even fervor of the reasoning make it one of the greatest among Hamilton's many great State papers.

of those rated specifically, that is, according to weight, measure, or other rule of quantity.

The reason of this is obvious. It is to guard against evasions which infallibly happen, in a greater or less degree, where duties are high. It is impossible for the merchants of any country to have manifested more probity than those of the United States, on this subject; and it is firmly believed, that there never was one in which illicit practices, to the disadvantage of the revenue, have obtained so little as hitherto in this; yet it would be a delusive expectation that, with duties so considerable as those which now exist, a disposition will not be experienced, in some individuals who carry on our import trade, to evade the payment of them, and this to an extent sufficient to make it prudent to guard with circumspection, and by every reasonable precaution, against the success of such attempts. It is needless to repeat, that this will contribute as much to the interest of the fair trader, as to that of the revenue.

It is believed that, in our system, the method of rating *ad valorem* could, with convenience, be brought within a much narrower compass; and it is evident that, to do so, will contribute materially to the security of the revenue.

The Secretary has not hitherto had leisure to digest the details of a plan for this purpose; but, if the idea is approved, it can be carried with due accuracy into effect, at a future session, by an order upon the head of this Department to prepare, in the meantime, a tariff proportioned to the actual rates of duty.

It may also be found expedient, with a similar

view, to adjust anew the proportional rates of duty, of different kinds or qualities, of certain articles. This observation is believed to apply, with particular force, to teas. It would be, in the opinion of the Secretary, advisable to throw them into three classes: to raise somewhat the lowest rate, and to diminish considerably the higher rates. A persuasion is entertained, founded partly upon observation of the course of importations, that a regulation of this kind would benefit the revenue. The same thing might be conveniently extended to some other articles.

Advantages will also accrue from a re-adjustment of the rates, in certain cases, by combining several rates on the same articles, established by different acts, into one rate, and by dismissing inconvenient fractions, which serve to perplex the calculation of the duties. Some alteration in the terms of credit for duties may, it is conceived, be made with advantage. Where four months are allowed, three and six months may be substituted; and three, six, nine, and twelve, or even three, six, nine, twelve, and fifteen, to the cases of six, nine, and twelve months. This will apportion the course of receipts more according to the course of payments, and prevent inconvenient pressures at particular junctures.

The compensations to inspectors, especially in the ports where the expense of living is great, and to collectors and surveyors in the less productive ports, urgently demand revision, in order to an increase of them.

The security of the revenue, in every branch, turns (it will not be too strong to say) principally upon the

officers of the lowest grade. Hence, it is a policy no less mistaken than common, to leave those officers without such compensations as will admit of a proper selection of character, and prevent the temptation, from indigence, to abuse the trust. It is certain that, in many places, the present allowance to inspectors, on the most liberal application of it, is inadequate to those important ends.

A similar reasoning will apply to those officers of the principal grades who, being in districts which produce little, are ill compensated by the emoluments to which they are at present entitled. It cannot escape observation, that the safety of the revenue must depend on equal fidelity and due vigilance in all the districts; else it may become, in many cases, worth the while to resort to particular districts, because there is a deficiency of the one or the other. Besides that, it is in itself just and proper that all who are in the public service should receive adequate rewards for their time, attention, and trouble.

The aggregate expense of collecting the duties on impost and tonnage is at present truly moderate—a circumstance which facilitates the extension of allowances where they are necessary. The system of the revenue cutters needs revision. The utility of every institution depends on the competency of the agents who are to execute it. The present compensations to officers and men, compared with what may be obtained in other similar employment, unaided by collateral motives, creates a degree of embarrassment which very much impairs the usefulness of the thing. It would have been, in the judgment of the Secretary,

a great means of rendering it competent to its object, if, as was early suggested by him, the officers of the customs had had rank in the navy of the United States.

With regard to that branch of revenue which is constituted by the duties upon spirits distilled within the United States, and upon stills, it is believed that it would be an improvement, and one which could be now made without inconvenience, to abolish the option to pay by the gallon of the spirits distilled, in the cases where the duties are charged on the stills. This will leave the alternative of paying by the year, or for less periods, upon licenses, at the choice of the party; an alternative which affords sufficient accommodation to the difference of circumstances. The option to pay by the gallon of the spirits distilled, according to an account to be rendered on the oath of the party, though expedient in the first experiment of the law, is objectionable, as a permanent regulation, in a double view.

The additional discretionary latitude given to compensations to the officers concerned in the collection of those duties, is restricted to a term which will expire at the end of the next session of Congress. It will be essential to extend it, or to fix the compensations which will have been allowed. It is believed that further experience will still be useful towards a definitive legislative adjustment.

Embarrassments are experienced from the want of a concurrent authority in these officers, similar to that of the officers of the customs, to make seizures within each other's surveys or divisions. On the

borders of such as are adjacent, the officers are exposed to hazard in making seizures, and better opportunities are afforded of escaping detection.

The revenue to result from the act of the last session, laying duties upon licenses to retailers of wines and distilled spirits, may be improved, favorable to proportional equality, by changing the form.

One license, for selling one or more kinds of wines, puts the greatest and the smallest dealer upon the same footing, and is so far inequitable. To class wines into a few obvious and strongly marked discriminations, and to render a license necessary for each class, with a duty upon each license, would favor a just distribution of the tax among great and small dealers, and would, at the same time, benefit the revenue. The classes may be as follows: 1st. Madeira wine. 2d. Sherry wine. 3d. Port wine. 4th. Other wines.

To secure the effect of the discrimination in favor of small dealers, who may be in the practice of selling and sending out different kinds of wines in small quantities, it may be provided that not more than one license shall be necessary to any dealer who never sells or sends out at one time more than three gallons. And suitable penalties may be annexed to guard the condition of the exemption.

Similar observations are applicable to licenses to retailers of spirituous liquors. These may be thrown into three classes: 1st. Spirits distilled from the grape, commonly called brandy. 2d. Spirits distilled from the produce of the sugar cane, commonly called rum. 3d. Other distilled spirits; and there

may be a like provision in favor of dealers who never sell or send out more than three gallons at one time.

Distillers may be put, in this respect, as to the spirits they distil, upon the same footing with importers; that is, they may be exempt from the license duty; but it would seem proper to annex these conditions to the exemption, that they shall not sell and send out a less quantity, in one cask, vessel, or package, than ten gallons; and that they shall not deal in the selling at retail of any other spirits than those they themselves distil.

Or another rule may be adopted, for proportioning the tax to the extent of the dealing; which is, to add to the present rate of the license certain supplemental rates, according to the yearly rent or yearly value, by appraisement, of the house or building in which the retailers of wines or spirituous liquors shall carry on the business.

This has been found, in practice, a convenient, and, upon the whole, an equitable rule of proportion; evidently more so than one license with the same duty to all dealers indiscriminately.

It is a general and a wise national policy to make these articles of wine and spirits as contributory to the revenue as can be made; which can only be effected by subdividing the duties upon them in the different stages of their passage to the consumer. The branch under consideration might be an important one. As it is now regulated it is feared that it may prove of inconsiderable consequence. The confining of the license for selling spirituous liquors

to foreign spirits, must give great facility to evasions. And it has an unequal operation upon different portions of the community.

It would promote the object of the act, which imposes duties on sales at auction, to allow two and a half per centum to each auctioneer, in lieu of the one per centum allowed by the ninth section of that act. It is believed that the present allowance is insufficient to defray the expenses of clerkship incident to a compliance with the requisitions of the law, which cannot be rendered less particular or exact without prejudice to the revenue.

The tax upon snuff, according to a rate per pound, will be liable to very great evasions, without regulations for a close inspection of the course of the business. Dispensing with these, it seems advisable to modify the tax upon a different plan. The proposition to lay it upon the mortar is as good a substitute as has occurred. It appears, upon evidence which is credited, that a snuff mill usually works about one half the year; that is, one hundred and fifty-six working days in a year; and yields, per mortar, of the whole number of mortars contained in a mill, an average of forty-five pounds of snuff per day. It follows that five hundred and sixty-one dollars at sixty-six cents per mortar, per annum, is the equivalent of the present duty of eight cents per pound. There are objections to this form of the tax; but, as it appears to be generally desired by the manufacturers, it seems advisable to forego them; especially as the present plan demands far more rigorous precautions for the effectual collection of

the duty than now exist, or than would be deemed expedient.

A similar difficulty attends the tax upon refined sugar; but a proper substitute for the present plan is not perceived. It will fortify the revenue, and produce no undue inconvenience to the manufacturer, if he be required to annex a ticket or tickets to each loaf of sugar, specifying the weight in pounds; and to each cask, barrel, keg, box, or other package of refined sugar, specifying the contents and weight in pounds, corresponding certificates or tickets to accompany imported refined sugar. The kinds of tickets to be furnished by the respective supervisors, and accounted for to them. The observance of this regulation to be secured by proper penalties.

The act which lays a duty on carriages for the conveyance of persons, exempts from the duty carriages *usually* and *chiefly* employed in husbandry, and in carrying commodities. It is a material defect in this act, as has been already experienced, that it provides no summary mode for determining what carriages are within the exempting description. Now, every disputed case must be the subject of a suit in all the legal forms; which is equally objectionable on the score of delay and expense. It is not perceived that any insurmountable difficulty lies in the way of providing a remedy consistently with a due reference, in the last resort, to the judiciary authority.

In revenue laws, too much is as great a fault as too little simplicity. It leaves them unprovisional; incapable of execution in a manner convenient either to the public or to individuals. The acts imposing

duties on licenses for selling wines and spirituous liquors at retail, and upon sales at auction, authorize allowances not exceeding two and a half per cent. for compensation to officers, and for incidental expenses. The acts laying duties upon carriages for the conveyance of persons, and upon snuff and refined sugar, make no provision for such compensations, or other expenses of collection. It is the opinion of the Secretary that the rate of two and a half per cent., in the two first mentioned acts, is inadequate—that it ought to be extended to five per cent., and that an equal provision should be made for the expense of collection, under the two last-mentioned acts.

The restrictions upon officers of the customs, and upon the supervisors and other officers of inspection, with regard to the public funds, appear to the Secretary unnecessary and inconvenient: unnecessary, because those officers, having no concern whatever with any branch of public business that respects the management of the funds, can have no official influence upon the policy or execution of the measures which regard them, further than by a punctual collection of the revenues; inconvenient, because it deprives them of a means of investing any little sums they may save or acquire, in a mode very convenient to men who, from situation, are less liable to avail themselves of other opportunities. If the being stockholders can have any influence upon them as officers, it must be of a kind favorable to the public service, by increasing their personal interest in the exact collection of the revenue. If the idea which dictated the restrictions was, that they might use

the public money in speculations in stock, the answer is, that this is not in their power, from the rapidity with which it is transferred to the treasury; and if it were practicable for them to divert the public money, and a disposition to do it should, in any case, exist, it might operate through other channels. In lieu of the restrictions concerning the funds, the employment of public money for private purposes, may, if thought necessary, be still further guarded against by penalties. Those restrictions in reference to the immediate officers of the Treasury Department, and the Commissioners of Loans, are entirely proper, and ought to be maintained; but it is believed that it is not only useless, but injurious, to give them greater extension. The multiplication of restrictions on the public officers will render greater compensations necessary, and be a source of expense to the public.

All which is respectfully submitted.

ALEXANDER HAMILTON,

*Secretary of the Treasury.*¹

NOTE.—Since the conclusion of this report, the Secretary has learnt that a bill (the progress of which his peculiar situation had prevented his observing) has actually passed the two Houses, for changing the terms of six, nine, and twelve months, into eight, ten, and twelve. This bill, besides interfering disadvantageously with arrangements of the treasury, founded upon the existing provisions of the laws, will, it is apprehended, tend to increase an inconvenience which the above suggestions were meant to lessen—the too great concentration of mercantile payments. Any accidental derangement of the mercantile body, from over-trading, or other cause, would, in this situation, endanger consequences to the treasury, which it might be difficult to meet by other expedients; whereas, a subdivision into shorter and more numerous periods, by diminishing the effect, would admit, in such cases, of an easy substitute. The merchants themselves are

¹ This brief report is full of pregnant and valuable suggestions.

particularly interested in this question; for the reaction upon them, of any embarrassment of the treasury, might render that a general and lasting mischief, which might otherwise have been only a partial and transient disorder.

BUILDING TAX

PLAN SENT TO OLIVER WOLCOTT, SECRETARY OF THE TREASURY,
JUNE 7, 1797

A million of dollars per annum on buildings and lands on the following plan:

1st. Upon inhabited dwelling-houses thus:—

Upon every such house of the denomination and description of a log house, at the rate of 20 cents for each room or apartment thereof, exclusive of garret and cellar.

Upon every other inhabited dwelling-house of two rooms or apartments, exclusive of halls or entries, garrets and cellars, at the rate of 25 cents for each room or apartment.

Upon every such house of three rooms or apartments, exclusive as before, at the rate of 33 $\frac{1}{2}$ cents for each room or apartment.

Upon every such house of four rooms, exclusive as before, at the rate of 40 cents for each room or apartment.

Upon every such house of five rooms, exclusive as before, at the rate of 60 cents for each room or apartment.

Upon every such house of six rooms, exclusive as before, at the rate of 75 cents for each room or apartment thereof.

Upon every such house of seven rooms and upwards, at the rate of 100 cents for each room, etc.

Remarks.—These rates have been adjusted by applying their operations to a number of houses, from which it appears that they find a sufficiently exact proportion to the rent, and they avoid the expense and uncertainty of valuation. Other circumstances of discrimination, if thought advised, may be added.

Upon every room in a garret or cellar of a house of the foregoing descriptions, having a fireplace, and upon any kitchen, whether in a cellar or adjacent building, at the rate of 20 cents for each room or kitchen.

Upon each room or apartment of every such house painted inside, the further sum of 25 cents.

Upon each room or apartment of such house papered inside, or painted and bordered with paper, the further sum of 50 cents.

Upon every chimney, faced with tiles or cut stone other than marble, the further sum of 50 cents.

Upon every chimney faced with marble, the further sum of 100 cents.

Upon every staircase of cedar or ebony wood, the further sum of 50 cents.

Upon every staircase of mahogany wood, the further sum of 100 cents.

Upon every room or apartment with stucco cornices, the further sum of 100 cents.

Upon every room with a stucco ceiling, the further sum of 200 cents; but the same room shall not also be rated for cornices of such work.

Upon every such house with pillars or pilasters outside in front, the further sum of 100 cents.

Upon every such house faced outside and in front, in whole or in part, with marble, the further sum of 200 cents.

These rates to be paid by the occupiers of the house, whether owners or tenants. When a house is let by parcels the landlord to be deemed the occupier.

Upon all stone houses not being parts of dwelling-houses in use, at the rate of one fortieth part of the yearly value, to be determined by the actual rent, if rented, and if not by an estimate or valuation thereof.

Upon all grist-mills, at the rate of 125 cents for each run of stone therein.

Upon all saw-mills at the rate of 50 cents for each saw usually worked therein, not exceeding three, and for each saw above that number 25 cents.

Upon all wharves in the cities and towns of Portsmouth, Boston, etc., (enumerating the principal towns,) at the rate of $12\frac{1}{2}$ cents for each foot in front thereof.

Upon all wharves in any other city or town at the rate of 6 cents.

Remarks.—Or this may be thrown into classes.

Upon all lumber yards in the cities or towns of Portsmouth, Boston, etc., (enumerating the principal towns,) at the rate of $2\frac{1}{2}$ cents for each hundred square feet.

Cottages inhabited by paupers to be excepted, to be judged of and ascertained by the assessors hereinafter described.

The amount of the foregoing taxes in each State, to be ascertained within a time to be limited by law for that purpose by the assessors, and a report thereof to be made to the Treasury, which shall then proceed to apportion, according to the prescribed quota, the sum remaining to make up the million of dollars to be levied.

For example, suppose there were five States, and the product of the house-tax of each as follows:

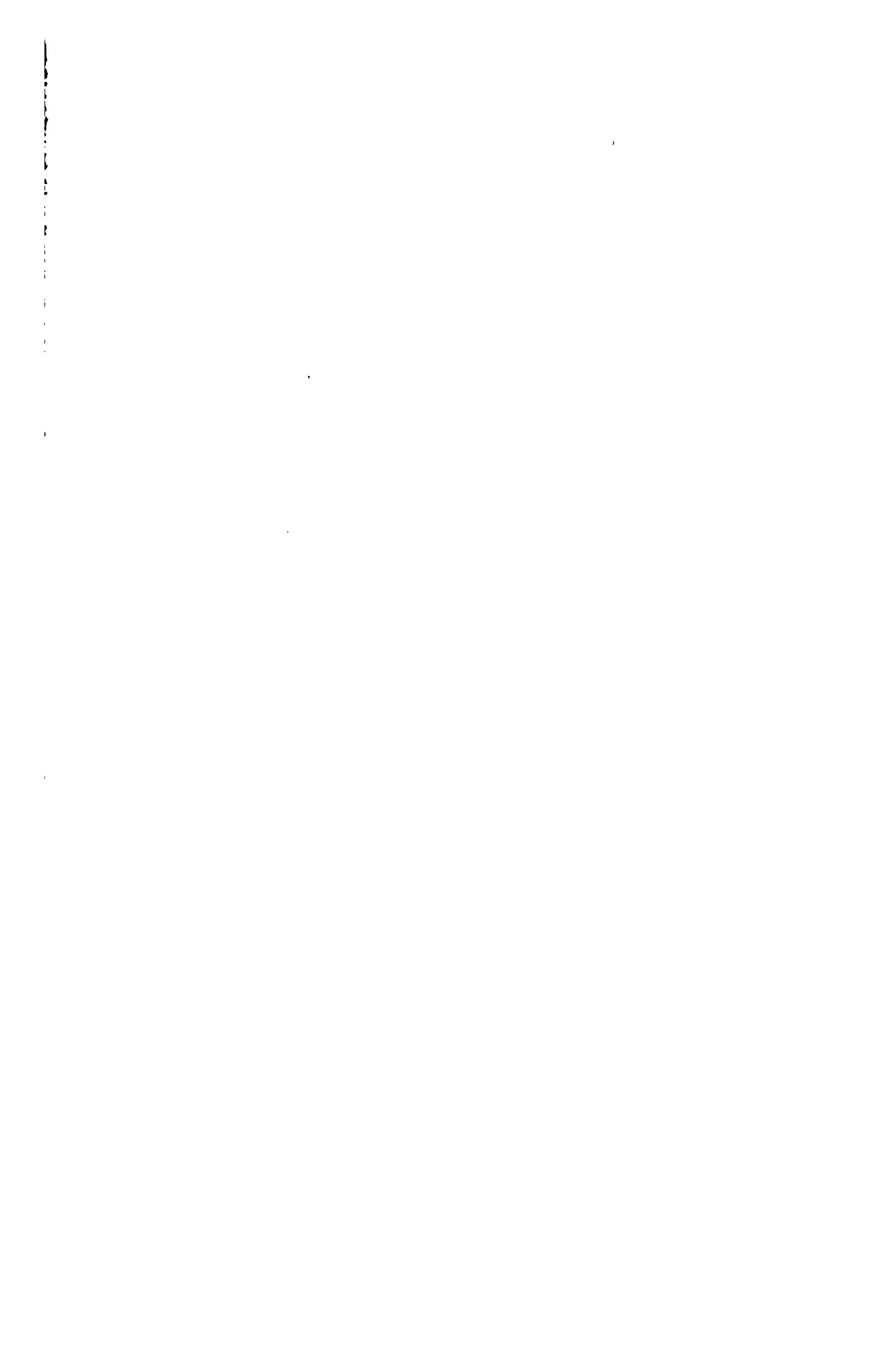
A.	\$100,000
B.	150,000
C.	200,000
D.	50,000
E.	100,000
	\$600,000

There would then remain toward the million to be levied on lands \$400,000. Let there be then assigned to each State so much in land-tax as together with its house-tax will equal the [The paper is incomplete.]

Remarks.—The mode of ascertaining to be by an actual calling at each house, and receiving of the occupiers a list of the particulars which are criterions of the tax; the officer to have power to administer an oath.

A proper penalty to be annexed to misrepresentation, and a power to be given upon cause of suspicion testified on oath, to issue a warrant to inspect the house for ascertaining the fact. This will reconcile the idea of the sanctity of the castle with the security of the revenue.

NATIONAL BANK



NATIONAL BANK

HAMILTON TO ROBERT MORRIS, 1780¹

SIR:—The present conjuncture is by all allowed to be peculiarly critical. Every man of reflection employs his thoughts about the remedies proper to be applied to the national disorders; and every one, from a partiality to his own ideas, wishes to convey them to those who are charged with the management of affairs. The channel of the public papers, commonly made use of for the purpose, appears to me exceptionable on several accounts. It not only

¹ This letter was written while Hamilton was still serving in the Revolutionary army. The struggle for independence was in danger of being wrecked by financial difficulties and Robert Morris had just undertaken those labors which, by his skill and energy, saved the cause of the Colonies. Hamilton, with his mind running on questions of government and finance, and satisfied that civil, political, and financial measures were really more essential than even military campaigns, desired most earnestly to help Morris, whom he greatly liked and respected. This letter was the result; a very extraordinary performance for a young man of twenty-three, whose life had been spent in college and camp. The natural genius of the financier and statesman shine out strongly. This is in fact the first of the arguments which led to the foundation of the national banking system of the United States. The others follow. Nothing has been omitted except a draft of a charter for the Bank of New York, 1786, and one of a charter for the Merchants' Bank of New York, 1803, which throw no light on Hamilton's opinions or on the development of the principles which were by his efforts, embodied in legislation.

restrains a freedom of discussion, from the extreme delicacy of the subject, but the discussion itself increases the evil, by exposing our weak sides to the popular eye, and adding false terrors to those well-founded apprehensions which our situation authorizes.

Instead of pursuing this method, I prefer addressing myself to a member of that body, in whose power alone it is, by well-digested system, to extricate us from our embarrassments. I have pitched upon you, from a personal knowledge of your abilities and zeal. If I offer anything new and useful, I am persuaded you will endeavor to turn it to advantage. If the contrary is the case, I am, at least, doing no harm. I shall only have had the trouble of writing, and you of reading, a few useless pages.

The object of principal concern is the state of our currency. In my opinion, all our speculations on this head have been founded in error. Most people think that the depreciation might have been avoided by provident arrangements in the beginning, without any aid from abroad; and a great many of our sanguine politicians, till very lately, imagined the money might still be restored by expedients within ourselves. Hence the delay in attempting to procure a foreign loan.

This idea proceeded from an ignorance of the real extent of our resources. The war, particularly in the first periods, required exertions beyond our strength, to which neither our population nor riches were equal. We have the fullest proof of this in the constant thinness of our armies, the impossibility, at

this time, of recruiting them otherwise than by compulsion, the scarcity of hands in husbandry and other occupations, the decrease of our staple commodities, and the difficulty of every species of supply. I am aware that the badness of the money has its influence; but it was originally an effect, not a cause, though it now partakes of the nature of both. A part of those evils would appear were our finances in a more flourishing condition. We experienced them before the money was materially depreciated; and they contributed to its depreciation. The want of men soon obliged the public to pay extravagant wages for them in every department. Agriculture languished from a defect of hands. The mechanic arts did the same. The price of every kind of labor increased, and the articles of foreign commerce, from the interruption it received, more than kept pace with other things.

The relative value of money being determined by the greater or less portion of labor and commodities which it will purchase; whatever these gained in price, that of course lost in value.

The public expenditures, from the dearness of everything, necessarily became immense; greater in proportion than in other countries; and much beyond any revenues which the best concentered scheme of finance could have extracted from the natural funds of the State. No taxes, which the people were capable of bearing, on that quantity of money which is deemed a proper medium for this country (had it been gold instead of paper), would have been sufficient for the current exigencies of government.

The most opulent states of Europe, in a war of any duration, are commonly obliged to have recourse to foreign loans or subsidies.¹ How, then, could we expect to do without them, and not augment the quantity of our artificial wealth beyond those bounds which were proper to preserve its credit? The idea was chimerical.

The quantity of money formerly in circulation among us is estimated at about thirty millions of dollars. This was barely sufficient for our interior commerce. Our exterior commerce was chiefly carried on by barter. We sent our commodities abroad, and brought back others in return. The

¹ France owes a debt of near two hundred million of pounds sterling; of which about twenty-eight millions is due to governments and individuals in the United Provinces.

England owes a debt not much short, of which about thirty millions is likewise due to the United Provinces.

The United Provinces, themselves, owe a debt of the generality of fifty millions sterling, besides the particular debts of each province. Russia, Prussia, Denmark, Sweden, all owe money to the United Provinces, notwithstanding the assistance of their mines. These governments, too, are patterns of economy. Sweden receives a constant supply from France. The House of Austria is also to be included in the catalogue. Spain is almost the only considerable European power to be excepted; but this is to be attributed to that inexhaustible fund of treasure which she possesses in the mines of South America.

The King of Prussia is one of those potentates the least in debt notwithstanding he has a long time made a figure in Europe, much above what the comparative strength and resources of his kingdom entitled him to expect. This his superior genius has effected. By a wise administration, he maintains an army of one hundred and fifty thousand men, nearly equal to that of France, with one third of its people, and less than a third of its riches. This he does by judicious arrangements, by a rigid economy, and by a species of commerce, which is carried on, on account of the state. There are several public manufactories, from which the army is supplied, and by the help of which the money paid out with one hand is taken in by the other.

balance of the principal branch was against us, and the little *specie* derived from others was transferred directly to the payment of that balance, without passing into home circulation. It would have been impracticable, by loans and taxes, to bring such a portion of the forementioned sum into the public coffers as would have answered the purposes of the war; nor could it have spared so considerable a part, without obstructing the operations of domestic commerce. Taxes are limited, not only by the quantity of wealth in a state, but by the temper, habits, and genius of the people; all which, in this country, conspired to render them moderate; and as to loans, men will not be prevailed upon to lend money to the public when there is a scarcity, and they can find a more profitable way of employing it otherwise, as was our case.

The ordinary revenues of the United Provinces amount to about twenty-five millions of guilders; or two millions two hundred and fifty thousand pounds sterling per annum. This is, on proportion to its territory and numbers, the richest country in the world; and the country where the people sustain the heaviest load of taxes. Its population is about equal to ours, two millions of souls. The burthens on the subject are so great that it is by some held most impracticable, even on extraordinary emergencies, to enlarge the revenues by new impositions. It is maintained, their dependence, in these cases, must be on the extraordinary contributions of wealthy individuals; with the aid of which, in some of their wars, they have raised four millions sterling a year.

In a country possessed of so vast a stock of wealth, where taxes are carried to such a height, and where the means of paying them so infinitely exceed those in our power, if the national revenues only amount to the sum I have stated, how inadequate must have been the product of any taxes we could have levied, to the demands of the service! Loans, for the reason before hinted, would have been out of the question; at least, they would have been so trifling as to be an object of little importance. Suppose we should have been able to raise a million sterling, annually; a sum that probably would have exceeded our ability; how unequal would this have been to our wants!¹ No economy could have made it bear any proportion, especially if we recur to the causes already enumerated, by which the currency depreciated in its first stages.

From these reasonings it results, that it was not in the power of Congress, when their emissions had arrived at the thirty millions of dollars, to put a stop to them.² They were obliged, in order to keep up the supplies, to go on creating artificial revenues by new emissions; and as these multiplied, their value declined. The progress of the depreciation might have been retarded, but it could not have been prevented. It was, in a great degree, necessary.

¹ This will appear, by recurring to our expenses in the commencement of the war, before the money was depreciated. In '75, which was only three fourths of a year, the emissions amounted to seven millions of dollars; in '76, to fourteen millions. The war did not begin, in earnest, till '76.

² This is meant, without employing the assistance of a foreign loan, and of other expedients beside borrowing and taxing.

There was but one remedy; a foreign loan. All other expedients should rather have been considered as auxiliary. Could a loan have been obtained, and judiciously applied, assisted by a vigorous system of taxation, we might have avoided that excess of emissions which has ruined the paper. The credit of such a fund would have procured loans from the moneyed and trading men within ourselves; because it might have been so directed, as to have been beneficial to them in their commercial transactions abroad.¹

The necessity for a foreign loan is now greater than ever. Nothing else will retrieve our affairs.

The wheels of government, without it, cannot much longer be kept in motion. Including loan-office certificates, and State emissions, we have about four hundred millions of dollars in circulation. The real value of these is less than seven millions, which is the true circulating medium of these States: for though the price of specie is and the rate of exchange for sterling bills the nominal value of every commodity is at least sixty to one, on an average. All the reasonings against the possibility of raising the current expenses on the foundation of thirty millions, apply to our present situation in the ratio of thirty to seven; that is, it is as thirty to seven less practicable now than when our emissions amounted to only thirty millions. Could every dollar in circulation be brought annually into the Treasury, which never was effected in any country, and is politically

¹ This will appear from the plan which will be proposed.

impossible, the revenue would not be equal to the yearly expense.

The hope of appreciating the money, by taxes and domestic loans, is at an end. As fast as it could be received, it must be issued in the daily expenditures. The momentary interval between its being drawn out of circulation and returning into it, would prevent its receiving the least advantage.

These reasonings may appear useless, as the necessity of a foreign loan is now acknowledged, and measures are taking to procure it. But they are intended to establish good principles; the want of which has brought us to the desperate crisis we are arrived at, and may still betray us into fatal mistakes.

How this loan is to be employed is now the question; and its difficulty equal to its importance. Two plans have been proposed: one, to purchase at once, in specie or sterling bills, all superfluous paper; and to endeavor, by taxes, loans, and economy, to hinder its returning into circulation. The remainder, it is supposed, would then recover its value. This, it is said, will reduce our public debt to the sterling cost of the paper.

Suppose two hundred millions were to be purchased, and the rest called in by taxes. At this would require bills to the amount of _____ of dollars. But I doubt whether four times this sum would be sufficient. The moment it was known such purchases were to be made, the avarice of the speculators would begin to operate: the demand would immediately occasion an artificial apprecia-

tion; each successive million would cost more than the preceding. But this appreciation would be more relative to the purchasing medium than to the prices of commodities. The raising the value of the paper relative to the former, would depend on the combination of a few artful individuals, and would be easily accomplished. The diminution of prices must be slow, as it implies a change in the sentiments of the body of the people with respect to the money. A sudden revolution in the general rates of all the necessaries of life is not to be expected. The prices of these, as they have reached their present summit by degrees, must, by degrees, revert to their former station. The minds of the people will not readily admit impressions in favor of the currency. All their past experience has given a habit of diffidence; and the epidemical spirit of extortion will maintain a violent struggle with whatever has a tendency to produce a fall of prices. A permanent reduction of the quantity of circulating cash, will alone gradually effect it. But this will not happen on the present plan.

The necessity of continuing the supplies at nearly the same rates now given (which would be the case if my reasonings are true), would have nearly the same effect mentioned with respect to taxes and domestic loans. The money would return into circulation almost as fast as it was drawn out; and at the end of the year we should find our treasury empty, our foreign loan dissipated, and the state of our finances as deplorable as ever. At a moderate calculation, we should have spent ten or twelve millions

of real dollars, for the sole purpose of carrying on the war another year. It would be much better, instead of purchasing up the paper currency, to purchase the supplies out of our specie or bills. In the first instance, the public would suffer a direct loss of the artificial appreciation, relative to the purchasing medium; in the last, it would buy at the value of the commodities in specie or bills.

A great source of error in disquisitions of this nature, is the judging of events by abstract calculations; which, though geometrically true, are false as they relate to the concerns of beings governed more by passion and prejudice than by an enlightened sense of their interests. A degree of illusion mixes itself in all the affairs of society. The opinion of objects has more influence than their real nature. The quantity of money in circulation is certainly a chief cause of its decline; but we find it is depreciated more than five times as much as it ought to be by this rule. The excess is derived from opinion; a want of confidence. In like manner we deceive ourselves, when we suppose the value will increase in proportion as the quantity is lessened. Opinion will operate here also; and a thousand circumstances may promote or counteract the principle.

The other plan proposed is to convert the loan into merchandise, and import it on public account. This plan is incomparably better than the former. Instead of losing on the sale of its specie or bills, the public would gain a considerable profit on the commodities imported. The loan would go much further this way, in supplying the expenses of the war; and

a large stock of valuable commodities, useful to the army and to the country, would be introduced. This would affect the prices of things in general, and assist the currency. But the arts of monopolizers would prevent its having so extensive and durable an influence as it ought to have.

A great impediment to the success of this, as well as the former scheme, will be the vast sums requisite for the current expenses. The arguments adduced in the former case are applicable here also, though not with equal force. The necessity the public will be under of parting with its stock to defray the daily demands, will give designing men an opportunity, by combinations not to purchase, to oblige it to sell at a rate below the real value of money. This they may the more easily effect, as the demand for foreign commodities is much less than formerly, on account of the general spirit of parsimony which has obtained from necessity, and the manufactures carried on in private families for their own use. The greatest part of the country people now almost entirely clothe themselves.

The public must either sell very cheap, to collect rapidly the superfluous paper in hopes of raising the value of the remainder; or it must sell very slow, to preserve the due proportion between the articles it has for sale and those it wants to buy. By pursuing the first method, it will soon exhaust its stock at a very considerable loss, and only give temporary relief to the currency. According to my principle, though it sells cheap, it must still buy dear; and, consequently, the money collected cannot remain in

the treasury long enough to preserve the rise in its appreciated state. If it pursues the second method, the expenditures will be equal to the income; and though the public will make the natural profits on its goods, as it will lay up nothing, it will do nothing towards the appreciation.¹

The farmers have the game in their own hands, and will make it very difficult to lower the prices of their commodities. For want of laborers, there is no great superfluity of the most essential articles raised. These are things of absolute necessity, and must be purchased, as well by the other classes of society as by the public. The farmers, on the contrary, if they do not like the price, are not obliged to sell; because they have almost every necessary within themselves,—salt, and one or two more, excepted, which bear a small proportion to what is

¹ To form an idea of the effect of this plan, let it be supposed that the goods imported amount to two millions of pounds sterling, and that these sell at one hundred and fifty pounds in paper, for each pound sterling. The whole proceeds will be eight hundred millions of dollars; to these add two hundred millions, raised in taxes. There will then be in the hands of the public one thousand millions of dollars; which, at sixty to one, gives sixteen millions six hundred and sixty-six thousand six hundred and sixty-six and two thirds of real dollars. Take the year '76 for a standard, and suppose fourteen millions of dollars to be the proper annual expense of the war, which is only two millions six hundred and sixty-six thousand six hundred and sixty-six and two thirds less than the whole amount of the goods and taxes. At this rate, the plan would do little more than defray the expenses of the war for one year. But this calculation is not exactly true; because the money would certainly appreciate, in some degree, by the reduction of its quantity; yet, as this reduction would not last, at least in the same extent, to preserve the appreciation, and as, in proportion to the appreciation, the price of goods must fall, and bring less money in, it is difficult to say whether it would not ultimately come to the same thing.

wanted from them, and which they can obtain, by barter, for other articles equally indispensable. Heavy taxes, it may be said, will oblige them to sell; but they can pay, with a small part of what they have, any taxes our Legislatures will venture to impose, or would be able to enforce.

One measure, alone, can counterbalance these advantages of the farmers, and oblige them to contribute their proper quota to the support of government: a tax in kind.

This ought instantly to begin throughout the States. The present quantity of cash, though nominally enormous, would, in reality, be found incompetent to domestic circulation, were it not that a great part of our internal commerce is carried on by barter. For this reason, it is impossible, by pecuniary taxes, to raise a sum proportioned to the wants of the State. The money is no longer a general representative; and when it ceases to be so, the State ought to call for a portion of the thing represented; or, in other words, to tax in kind. This will greatly facilitate whatever plan of finance is adopted; because it will lessen the expenditures in cash, and make it the easier to retain what is drawn in.

I said the demand for foreign goods is less than it formerly was. I mean there is not a demand for so large a quantity, which the reasons already assigned clearly demonstrate; nor are the exorbitant rates now given any objection to this doctrine. There is an absolute scarcity even in comparison of the present consumption; and, of course, a demand for what there is. But should an importation of two

millions sterling take place, the market would be glutted; and there would be no way of keeping up the price, but by making very slow sales. A less quantity would stand no chance of calling in the money, and keeping it in long enough to effect anything in favor of its credit.

I say nothing about the risk of importation. I do not believe we could obtain a convoy sufficient to justify our hazarding it without the precaution of insurance. But with this expedient we are safe, and must be satisfied with smaller profits for the sake of security.

This is a plan not altogether to be rejected. With prudent management it might enable us to carry on the war two or three years (which, perhaps, is as long as it may last); but if we should expect more from it, the restoration of the currency, we should be disappointed.

The only plan that can preserve the currency is one that will make it the *immediate* interest of the moneyed men to co-operate with government in its support. The country is in the same predicament in which France was previous to the famous Mississippi scheme, projected by Mr. Law. Its paper money, like ours, had dwindled to nothing; and no efforts of the government could revive it, because the people had lost all confidence in its ability. Mr. Law, who had much more penetration than integrity, readily perceived that no plan could succeed which did not unite the interest and credit of rich individuals with those of the state; and upon this he framed the idea of his project, which, so far, agreed

in principle with the Bank of England. The foundation was good, but the superstructure too vast. The proprietors aimed at unlimited wealth, and the government itself expected too much; which was the cause of the ultimate miscarriage of the scheme, and of all the mischiefs that befell the kingdom in consequence.

It will be our wisdom to select what is good in this plan, and in any others that have gone before us, avoiding their defects and excesses. Something on a similar principle in America will alone accomplish the restoration of paper credit, and establish a permanent fund for the future exigencies of government.

Article I. The plan I would propose is that of an American bank, instituted by authority of Congress for ten years, under the denomination of The Bank of the United States.

II. A foreign loan makes a necessary part of the plan; but this I am persuaded we can obtain, if we pursue the proper measures. I shall suppose it to amount to two millions of pounds sterling. This loan is to be thrown into the bank as a part of its stock.

III. A subscription to be opened for two hundred millions of dollars; and the subscribers erected into a company, to be called **THE COMPANY OF THE BANK OF THE UNITED STATES.**

IV. The government to guarantee this subscription money to the proprietors, at the rate of one for twenty; that is, to engage, at the dissolution of the bank, to make good to them the sum of ten millions

of dollars, in lieu of the two hundred millions subscribed, payable in Spanish milled dollars, or a currency *bona fide* equivalent to them.

V. The taxes raised in money annually, to be thrown into stock.¹

VI. All the remaining paper to be called in (at the option of the possessor), and bank-notes issued in lieu of them, for so much sterling, payable to the bearer in three months from the date, at two per cent. per annum interest. A pound sterling to be estimated at two hundred and sixty-six and two thirds of the present dollar.² The interest to be punctually paid in specie at the end of the three months, when it shall be at the choice of the possessor to have the bank-notes renewed, or to receive the sum deposited in the old paper.

VII. All the money issued from the bank to be of the same denomination, and on the same terms.³

VIII. The bank to furnish Congress with an annual loan of two millions sterling, if they have occasion for it, at four per cent. interest.

IX. The whole or such part of the stock as is judged necessary to be employed in commerce, in the manner and on the terms which shall be agreed

¹ The taxes are made to increase every year, for the three years, because the money in circulation increases, and, consequently, the people can afford to pay more.

² This is sixty paper dollars to one dollar of four shillings and sixpence sterling, which is the real value of the money. But if it is apprehended that this may meet with opposition, let the valuation of the bank-notes be the same as the price of European bills of exchange. Other operations must be regulated accordingly.

³ The reason of this is to preserve the idea of a stock, and make it seem that the old paper is still in existence. But there is danger, notwithstanding the reasons to the contrary, that there may be a run

upon from time to time between the company and a Board of Trade to be appointed by Congress.

X. The bank to issue occasionally, by permission of Congress, such sums as may be thought safe and expedient, in private loans, on good securities, at six per cent. interest.

XI. The government to share half the whole stock and profits of the bank.

XII. The bank to be managed by the trustees of the company, under the inspection of the Board of Trade,¹ who may have recourse to the company's books whenever they think proper to examine the state of its affairs. The same is done in England and in other countries where banks are established, and is a privilege which the government has a right to

upon the bank, from particular causes, which may embarrass it. It is not probable the old paper will be entirely, though nearly, called out of circulation; what remains will appreciate; this may tempt those who have bank-notes to demand payment on the terms of the original deposit, without considering that, by bringing too great a quantity again into circulation, it will again depreciate. The bank may be pushed to a very disagreeable extremity by this means. I do not know whether it may not be advisable to confine the privilege of repayment to the lenders to the bank, and make the bills bear interest, payable every three months, without making the principal demandable. Much may be said for and against. It is well worth consideration.

¹ This board ought immediately to be established at all events. The Royal Council of Commerce, in France, and the subordinate Chambers in each province, form an excellent institution, and may, in many respects, serve as a model. Congress have too long neglected to organize a good scheme of administration, and throw public business into proper executive departments. For commerce I prefer a board, but for most other things, single men. We want a Minister of War, a Minister of Foreign Affairs, a Minister of Finance, and a Minister of Marine. There is always more decision, more dispatch, more secrecy, more responsibility, where single men, than where bodies, are concerned. By a plan of this kind we should blend the advantages of a monarchy and of a republic in a happy and beneficial union. Men will

demand for its own security. It is the more necessary in this case, from the commercial nature of the bank.

To give an idea of the advantages—

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which, having all the operation of money, and of a more advantageous kind than that which the lenders have parted with, will have all the efficacy of a payment. It is for this reason they are made to bear interest; and there can be no doubt that every man will prefer a species of money which answers all the purposes of a currency, and even when lying idle, brings in a profit to the possessor. The same consideration will prevent the lenders recalling the old

only devote their lives and attentions to the mastering a profession, on which they can build reputation and consequence which they do not share with others.

If this plan should be approved Congress ought immediately to appoint a Minister of Finance under whatsoever title they think proper, and charge him with its execution. He ought to be a man of ability to comprehend it in all its consequences; and of eloquence, to make others comprehend and relish it. He ought, beside, to have some general knowledge of the science. This man ought immediately to address himself to some of the most sensible moneyed men, and endeavor to convince them of the utility of the project. These must engage others, and so on, till a sufficient number is engaged.

Then Congress must establish the bank and set it agoing. I know of no man that has better pretensions than yourself; and I shall be very happy to hear that Congress have said: "Thou art the man."

I had like to have omitted one remark, which is, that the subscription money may be guaranteed, if necessary, at ten to one, as a greater inducement. This will only be twenty millions of dollars, or five millions of pounds sterling; a cheap bargain to get rid of the perplexities we labor under, and convert the torrent of ideal money into a moderate but sufficient stream to supply the real wants of the State. Congress, no doubt, would be able to borrow enough abroad to pay this debt, if it should not find better means within itself. But I shall be much mistaken if the proprietors will desire to be repaid, and not prefer continuing the loan to government on reasonable terms.

paper at the quarterly payments; because they hold a more valuable property instead of it. The interest is to be paid in specie, as a further temptation, for which a small sum will suffice. The denomination of the money is altered; because it will produce a useful illusion. Mankind are much led by sounds and appearances; and the currency having changed its name will seem to have changed its nature.

The bank will advance bills to the amount of two million of pounds sterling to Congress; and, in addition to its stock, will now have a debt due it of this sum, which is to be considered as so much gained.

[Here a part of the manuscript is missing.]

Brought over	£7,075,000
To be deducted:	
Drawn out of circulation, by the sale of goods imported . . .	£4,000,000
By governmental taxes, supposed to be	1,000,000— <u>5,000,000</u>
Remaining in circulation the fourth year	£2,075,000

This will be less than the preceding, which is occasioned by the million supposed to be drawn in by taxes.

The national debt, on this plan, will stand thus, at the end of three years:

Foreign loan	£2,000,000
Domestic loan, at two millions per annum . . .	6,000,000
Interest at four per cent.	<u>320,000</u>
	8,320,000
Half the value of the bank	<u>7,900,000</u>
Balance against the United States	£420,000

We may, therefore, by means of this establishment, carry on the war three years, and only incur a debt of four hundred and twenty thousand pounds over and above the guaranty of the subscription money; which, however, is not to be paid till the end of ten years.

I have said, in one place, that abstract calculations, in questions of finance, are not to be relied on; and as the complex operations of trade are involved in the present plan, I am, myself, diffident of those flattering results which it presents at every step. I am aware how apt the imagination is to be heated in projects of this nature, and to overlook the fallacies which often lurk in first principles. But when I consider, on the other hand, that the scheme stands on the firm footing of public and private faith; that it links the interest of the State in an intimate connection with those of the rich individuals belonging to it; that it turns the wealth and influence of both into a commercial channel, for mutual benefit, which must afford advantages not to be estimated; that there is a defect of circulating medium, which this plan supplies, by a sort of creative power, converting what is so produced into a real and efficacious instrument of trade;—I say, when I consider these things, and many more that might be added, I cannot forbear feeling a degree of confidence in the plan, and, at least, hoping that it is capable of being improved into something that will give relief to our finances.

I do not believe that the advantages will be so great in fact, as they seem to be in speculation.

They will be limited by the means of commerce which the States produce; and these may not be so extensive in the beginning as the plan supposes. Besides this, the profits of the commerce will not be so large, in proportion, after the first or second year, as during those years; neither will it be possible to increase the paper credit in the same degree. But the Bank of England is a striking example, how far this may be carried, when supported by public authority and private influence. On the other hand, a variety of secondary expedients may be invented, to enlarge the advantages of the bank. The whole system of annuities, as practised in England, may be ingrafted upon it, with such differences as are proper to accommodate it to our circumstances. The European loan may also be converted into a European bank, the interest of which, being interwoven with the American bank, may engage rich individuals there in promoting and extending the plan.

Very beneficial contracts may be made between government and the company, for supplying the army, by which money may be saved to the public, the army better furnished, and the profits of the bank extended.

I have confined the bank to the space of ten years, because this will be long enough to judge of its advantages and disadvantages; and the latter may be rectified by giving it a new form. I do not suppose it will ever be discontinued; because it seems to be founded on principles that must always operate well, and make it the interest, both of government and

the company, to uphold it. But I suppose the plan capable of improvement, which experience will suggest.

I give one half of the whole property of the bank to the United States; because it is not only just but desirable to both parties. The United States contribute a great part of the stock; their authority is essential to the existence of the bank; their credit is pledged for its support. The plan would ultimately fail, if the terms were too favorable to the company, and too hard upon government. It might be encumbered with a debt which it could never pay, and be obliged to take refuge in bankruptcy. The share which the State has in the profits will induce it to grant more ample privileges, without which the trade of the company might often be under restrictions injurious to its success.

It is not, perhaps, absolutely necessary that the sum subscribed should be so considerable as I have stated it, though the larger the better. It is only necessary it should be considerable enough to engage a sufficient number of the principal moneyed men in the scheme. But Congress must take care to proportion the advantages they give and receive.

It may be objected that this plan will be prejudicial to trade, by making the government a party with a trading company; which may be a temptation to arrogate exclusive privileges, and thereby fetter that spirit of enterprise and competition on which the prosperity of commerce depends. But Congress may satisfy the jealousies on this head, by a solemn resolution not to grant exclusive privileges,

which alone can make the objection valid. Large trading companies must be beneficial to the commerce of a nation, when they are not invested with these, because they furnish a capital with which the most extensive enterprises may be undertaken. There is no doubt the establishment proposed would be very serviceable at this juncture, merely in a commercial view; for private adventurers are not a match for the numerous obstacles resulting from the present posture of affairs.

The present plan is the product of some reading on the subjects of commerce and finance, and of occasional reflections on our particular situation; but a want of leisure has prevented its being examined in so many lights, and digested so materially, as its importance requires. If the outlines are thought worthy of attention, and any difficulties occur which demand explanation; or if the plan be approved, and the further thoughts of the writer are desired, a letter directed to James Montague, Esquire, lodged in the post-office at Morristown, will be a safe channel of any communications you may think proper to make; and an immediate answer will be given. Though the writer has reasons which make him unwilling to be known, if a personal conference with him should be thought material, he will endeavor to comply.

You will consider this as a hasty production, and excuse the incorrectnesses with which it abounds.

I am, Sir, very respectfully,

Your most obedient and humble servant.

HAMILTON TO ROBERT MORRIS

April 30, 1781.

SIR:

I was among the first who were convinced that an administration by single men was essential to the proper management of the affairs of this country. I am persuaded now it is the only resource we have to extricate ourselves from the distresses which threaten the subversion of our cause. It is palpable that the people have lost all confidence in our public councils; and it is a fact, of which I dare say you are as well apprised as myself, that our friends in Europe are in the same disposition. I have been in a situation that has enabled me to obtain a better idea of this than most others; and I venture to assert that the Court of France will never give half the succors to this country, while Congress holds the reins of administration in their own hands, which they would grant, if these were entrusted to individuals of established reputation, and conspicuous for probity, abilities, and fortune.

With respect to ourselves, there is so universal and rooted a diffidence of the government, that, if we could be assured the future measures of Congress would be dictated by the most perfect wisdom and public spirit, there would be still a necessity for a change in the forms of our administration, to give a new spring and current to the passions and hopes of the people.

To me it appears evident that an executive ministry, composed of men with the qualifications I have described, would speedily restore the credit of

government abroad and at home—would induce our allies to greater exertions in our behalf—would inspire confidence in moneyed men in Europe, as well as in America, to lend us those sums of which it may be demonstrated we stand in need, from the disproportion of our national wealth to the expenses of the war.

I hope, sir, you will not consider it as a compliment, when I assure you that I heard, with the greatest satisfaction, of your nomination to the department of finance. In a letter of mine last summer to Mr. Duane, urging, among other things, the plan of an executive ministry, I mentioned you as the person who ought to fill that department. I know of no other in America, who unites so many advantages; and of course every impediment to your acceptance is to me a subject of chagrin. I flatter myself Congress will not preclude the public from your services by an obstinate refusal of reasonable conditions; and, as one deeply interested in the event, I am happy in believing you will not easily be discouraged from undertaking an office, by which you may render America, and the world, no less a service than the establishment of American independence! 'T is by introducing order into our finances—by restoring public credit—not by gaining battles, that we are finally to gain our object. 'T is by putting ourselves in a condition to continue the war—not by temporary, violent, and unnatural efforts to bring it to a decisive issue, that we shall, in reality, bring it to a speedy and successful one. In the frankness of truth I believe, sir, you

are the man best capable of performing this great work.

In expectation that all difficulties will be removed, and that you will ultimately act on terms you approve, I take the liberty to submit to you some ideas relative to the objects of your department. I pretend not to be an able financier; it is a part of administration which has been least in my way, and, of course, has least occupied my inquiries and reflections. Neither have I had leisure or materials to make accurate calculations. I have been obliged to depend on memory for important facts, for want of the authorities from which they are drawn. With all these disadvantages, my plan must necessarily be crude and defective; but if it may be a basis for something more perfect, or if it contains any hints that may be of use to you, the trouble I have taken myself, or may give you, will not be misapplied. At any rate, the confidence I have in your judgment assures me that you will receive with pleasure communications of this sort: if they contain anything useful, they will promote your views and the public benefit; if not, the only evil is the trouble of reading them; and the best informed will frequently derive lights, even from reveries of projectors and quacks. There is scarcely any plan so bad as not to have something good in it. I trust mine to your candor without further apology; you will at least do justice to my intention.

The first step towards determining what ought to be done in the finances of this country, is to estimate, in the best manner we can, its capacity for revenue;

and the proportion between what it is able to afford, and what it stands in need of, for the expenses of its civil and military establishments. There occur to me two ways of doing this: 1st. By examining what proportion the revenues of other countries have borne to their stock of wealth, and applying the rule to ourselves, with proper allowance for the difference of circumstances. 2d. By comparing the result of this rule with the product of taxes in those States which have been the most in earnest in taxation. The reason for having recourse to the first method is, that our own experience of our faculties in this respect has not been sufficiently clear, or uniform, to admit of a certain conclusion: so that it will be more satisfactory to judge of them by a general principle, drawn by the example of other nations, compared with what we have effected ourselves, than to rely entirely upon the latter.

The nations with whose wealth and revenues we are best acquainted, are France, Great Britain, and the United Provinces. The real wealth of a nation, consisting in its labor and commodities, is to be estimated by the sign of that wealth—its circulating cash. There may be times when, from particular accidents, the quantity of this may exceed or fall short of a just representative; but it will turn again to a proper level, and in the general course of things, maintain itself in that state.

The circulation of France is almost wholly carried on in the precious metals; and its current cash is estimated at from fifteen to sixteen hundred millions of livres. The net revenue of the kingdom,

the sum which actually passes into the public coffers, is somewhere between three hundred and sixty and four hundred millions, about one fourth of the whole of its currency. An estimate of the wealth of this nation is liable to less fallacy than of that of the other two, as it makes little use of paper credit, which may be artificially increased, and even supported, a long time beyond its natural bounds.

It is supposed that the gross sum extracted from the people by the collectors of the revenue may be one third more than that which goes into the treasury; but as their exactions are excessive, and fall too heavy on particular orders, who are by that means reduced to indigence and misery, it is to be inferred, that, with moderate and reasonable expenses of collection, the present revenue is as great as the kingdom can well afford, from its present quantity of wealth.

The circulating cash of Great Britain, in paper and specie, may be stated at about forty millions of pounds sterling. Mr. Hume supposes it to have been, at the time he wrote his *Essay on the Balance of Trade*, about thirty millions. Other writers have carried it to fifty, and it is probably in a medium that we shall find the truth. I do not include in this, the whole amount of bank-notes, exchequer bills, India bonds, etc., etc.; but only such part as is really employed in common circulation, and performs the offices of current cash. In '75, by Dr. Price's statement, the net revenue of Great Britain was ten millions—that is, about one fourth of its current cash, as in France.

I have never met with any calculation that might be depended upon, of the current cash of the Seven Provinces. Almost the whole of their coin, as well as large quantities of plate and bullion, are shut up in the Bank of Amsterdam. The real wealth of the bank is believed to be about fifteen millions sterling; though, upon the strength of this fund, it has a credit almost unlimited, that answers all the purposes of cash in trade. As the Dutch, by their prudent maxims, have commonly the rate of exchange throughout Europe in their favor, and a considerable balance of trade, the use of paper credit (which, in part, also depends upon the particular nature of their banks) has not the same tendency with them, as in England, to banish the precious metals. We may therefore suppose these to be here, as in France, the true sign of the wealth of the nation. If to the fifteen millions in bank, we add two millions of specie for the retail circulation and various transactions of business, we shall, I imagine, have nearly the true stock of wealth of the United Provinces. Their revenues amount to something more than four millions, and bear the same proportion to the stock from which they are drawn, as those of France and England. I confess, however, the data, in their case, are not sufficiently ascertained to permit us to rely equally on the result. From these three examples we may venture to deduce this general rule,—that the proportion of revenue which a nation is capable of affording, is about one fourth of its circulating cash, so far as this is a just representative of its labor and commodities.

This is only applicable to commercial countries, because, in those which are not so, the circulating cash is not an adequate sign. A great part of domestic commerce is carried on by barter; and the state must receive a part of its dues in the labor and commodities themselves. The proportion, however, of the revenues of such a state to the aggregate of its labor and commodities, ought to be the same as in the case of trading nations to their circulating cash; with this difference, that the difficulty of collection and transportation, the waste and embezzlement inseparable from this mode of revenue, would make the real advantage and ultimate gain to the state infinitely less than when the public dues are paid in cash.

When I say that one fourth part of its stock of wealth is the revenue which a nation is capable of affording to the government, I must be understood in a qualified, not in an absolute, sense. It would be presumptuous to fix a precise boundary to the ingenuity of financiers, or to the patience of the people; but this we may safely say, that taxation is already carried, in the nations we have been speaking of, to an extent which does not admit of a very considerable increase without a proportionable increase of industry. This suffices for a standard to us; and we may proceed to the application.

From a comparison of the several estimates I have seen, of the quantity of current cash in this country previous to the war (specie and paper), I have settled my opinion of the amount at thirty millions of dollars, of which about eight might have been in

specie: one fourth of this, by analogy, was at that time the proper revenue of these States; that is, seven and a half millions of dollars.

As taxation, however, has, by slow gradations, been carried to an extreme in those countries which I have chosen as examples, that would not be, but in a course of time, practicable in this, where the people have been so little accustomed to taxes, it may be doubted whether it would be possible to raise the same proportion of revenue here. The object of the war, I imagine, would supply the want of habit, and reconcile the minds of the people to paying to the utmost of their abilities, provided the taxes were judiciously imposed, and the revenues wisely administered. Besides this, there is a circumstance in our favor, which puts it in the power of government to raise an equal proportion of revenue without burthening the lower classes of the people in the same degree as in Europe. This circumstance is the much greater equality of fortunes, by which means men, in this country, may be made to contribute to the public exigencies in a much juster proportion to their property; and this is in fact the case. In France the rich have gained so entire an ascendant, that there is a constant sacrifice of the ease and happiness of the people to their avarice and luxury: their burthens are in no proportion to those of the middle order, and still less to those of the poor. In England and Holland the case, though not altogether, is in a great measure the same. There are also men of very large moneyed capitals, which were either formerly exempt from

taxes by being in the public funds; or, having no visible representative for taxation to operate upon, enjoy virtually the same advantages. But if, at the commencement of the war, the ability of these States for revenue may be rated at seven and a half millions of dollars, when the amount of its circulating cash was thirty millions, now that it is reduced more than one half in real value, to what revenue are they to be supposed equal at this time? I should judge about one fifth less, and not more.

The diminution of our circulating cash is principally artificial. It is true, our foreign commerce has declined by the war, but our domestic commerce has increased. I know of no good reason to believe, that the quantity of labor and commodities have been materially diminished. Our exports have lessened, but our internal consumption has augmented. The men employed in the army, and in the departments connected with it, consume and waste three times as much as the same number of men in civil life. A number of husbandmen have been taken from their ploughs into military service; but the progress of our natural population has, in part, supplied their place; and the demands of the war have increased individual industry. The great influx of money at first operated upon the avarice of the people, and, for a long time, served also as a stimulus to industry, which taxation has since kept up on the principle of necessity. Notwithstanding the demands and competitions of two armies for supplies, we see that corn, which is the staple of these Middle States, is cheaper than for

some years before the war; a strong argument of plenty.

We may infer from all this, that we stand in need now of nearly the same quantity of medium for our circulation as before the war. The depreciation of the money below the standard is to be attributed to a want of confidence rather than to a decay of resources. We find the people, in some of the States, distressed to pay their taxes for want of money, with ample means otherwise; which is a proof, that our current cash is not a competent representative of the labor and commodities of the country. Another proof of the same nature is, that particular States which have found no small difficulty in collecting their pecuniary taxes, have been successful in raising contributions to a large amount in kind.

This country never having been a country of manufactures, the productions of the soil were, as they still are, the principal source of revenue. The inhabitants have abridged their wants of foreign articles, from the scarcity of them, and have, in part, supplied their place by home manufactures, which, being chiefly conducted by the women, take nothing from the labor appropriated to agriculture, while it enables the farmer to spare a larger portion of his income to the public.

Whatever diminution our means of revenue may have suffered, must be accounted for on the decay of foreign trade, and on the loss of territory. The imposts on trade in Great Britain amounted to about a fourth of its total revenue. The proportion must be less in America. But suppose it to be the same;

suppose our external commerce to be reduced one half, which I believe is an ample allowance, then one eighth should be deducted from our revenue on this account; which would bring it down to six millions five hundred and sixty-two thousand five hundred dollars. Allow for the loss of Georgia and South Carolina one eighth of this sum; this would reduce the income of the remaining States to five millions seven hundred and forty-two thousand one hundred and eighty-eight and four eighths dollars. But as the allowance in both cases is large, the diminution I have already supposed, of one fifth of the whole, appears to be nearest the truth; which leaves these States with a net revenue of six millions of dollars.

We will now examine how far this rule agrees with experience, and with what has already been effected in these States. Massachusetts may serve as a criterion. This is one of the States where taxation has been carried furthest. Taxes were so heavy last year, that I am informed there were real marks of distress among some classes of the people. The Legislature, in their late address, tell us that they amounted to six hundred thousand pounds lawful; and they appear to have thought the pressure of them too great, by reducing them at a time when they are obliged to have recourse to a large loan to answer the exigencies of the current year.

The taxes they specify, which seem to belong to those of the present year, with the addition of the bounties for raising men, and the beef supply, may be estimated at near five hundred thousand pounds.

This State is in a different situation from any other. Its position has made it impossible for the enemy to intercept its trade; while that of all the others has been greatly injured or totally obstructed. It has become, in consequence, the mart of the States northward of Pennsylvania; and its commerce has enlarged itself much beyond its former limits. A great part of the money expended for the support of the war has been disbursed there. Congress, in their requisitions for money, have rated the quota of Massachusetts at ¹ of the whole; but I believe its ability, at this time, is in the proportion of one fifth. I found this estimation on an impartial comparison of the circumstances of the several States.

Admitting the proportion to be just, and taking the taxes of the present year as a standard, the gross amount of our collective revenues would be two millions five hundred thousand pounds lawful; or eight millions three hundred and thirty-three thousand three hundred and thirty-three and one third dollars. The expense of collection, in England, is about one ninth of the gross amount; and considering that our revenue is to be raised in eleven different governments, each having a complete set of collectors of its own, the expense of collection, with us, will in all probability be not much less than it is in England. Supposing it to be the same, and that the taxes were to prove as productive as their normal amount,

¹ This blank is in the original, and as the quota of Massachusetts seems to have varied from a seventh to a ninth it cannot be filled precisely. See Journals of Continental Congress.

our net revenue would then be seven millions four hundred and seven thousand four hundred and eight and one half dollars; which considerably exceeds what it ought to be by my first calculation.

But there are considerations which may induce us to make large deductions from this sum. When the Legislature tells us, that the taxes of last year amounted to six hundred thousand pounds, it also tells us that there was *a part* of them still to be levied; which, among other things, had occasioned them to postpone the next tax to a future session. Whatever is due on the last year may be considered, in effect, as an anticipation on the taxes of the present; for it takes off so much from the ability of the people to pay them. The chances are, that the additional impositions projected for the current year will not be raised in their full extent. Taxes are seldom or never so productive as their estimated value; and in a case like this, must be expected to be more than commonly deficient.

It is to be observed, also, that the last year was a year of peculiar exertion. There was a general expectation of some attempt, in conjunction with our allies, decisive of the war. This made the people strain their efforts beyond their natural abilities; and yet they did not comply with the demands of the Legislature.

The money for the bounties this year, which I have calculated at sixty thousand pounds,¹ may, in like

¹ It is to be feared, too, that this sum is rated too high. Hitherto we have not four hundred men from that State, nor very promising accounts of those which may be expected.

manner, be regarded as an extraordinary and special contribution, which the people may be willing to submit to, over and above what they could probably afford to pay, to get rid of the insupportable inconvenience of temporary enlistments.

Reasonable deductions on these accounts being made, will bring the two calculations to a pretty exact agreement, and make them confirm each other. But were not this the case, I should be inclined, in preference, to trust the first, as being founded on a basis better known and better ascertained by experience. I believe, however, we may safely conclude, from both, that between six and seven millions of dollars is the proper revenue of these States, after the dismemberment of South Carolina and Georgia.

Having formed an estimate of our ability for revenue, the next thing to be ascertained is the annual expense of our civil and military establishments. With tolerable economy, I should suppose two millions and a half of dollars would amply suffice for the first, including the particular administration of each State. For the second, judiciously managed, eight millions of dollars would be adequate, calculating for an army of twenty thousand men, which are as many as we shall stand in need of, or be able¹ to raise. Eleven millions of dollars

¹The proportion of the European armies, in general, to the national population, is calculated at one to a hundred. By this rule, supposing our population to be two and a half millions, our armies ought to consist of twenty-five thousand men; but the proportion will naturally be less in this country. Our population is more diffused: there is a greater facility of procuring subsistence, fewer poor and consequently fewer of that class of men whose habits, tempers, and circumstances lead them to embrace the military life, than in any other country in

will be then the amount of the annual expenses of these States. I speak on a supposition that a system were embraced, well adapted to rescuing our affairs from the chaos in which they are now involved; and which, while it continues, must baffle all calculation.

The difference between our revenues and expenses, on the preceding scale, will be from four to four and a half millions of dollars; which deficiency must of course be supplied by credit, foreign or domestic, or both.

With regard to credit abroad, I think we have little chance of obtaining a sufficiency, nearly to answer our purpose. France, by all the reforms she can make in her interior economy, by all the means she can procure in loans and lotteries, in the world. Hence it is, I say, twenty thousand men are as many as we shall be able to raise. Experience justifies this opinion. In the first paroxysms of enthusiasm our armies were larger. I believe, at particular periods, we have had more than thirty thousand men in the field: but our force has every year diminished, and has been for two years past below the standard I have assigned. Immense efforts have been made to procure men, but they have not been able to produce more. This shows that our military system is still susceptible of great reforms in favor of economy; but we dare not make them, because we cannot pay the army. I also said, twenty thousand men would be as many as we should stand in need of. The enemy have now less than this number within the States; and cannot, in the future progress of the war, have more.

An equal force, with the occasional aid of the militia, will confine them within one or two capital points; and this will be their defeat. But we have a further resource in the troops of our allies. We must not dream of decisive enterprises, unless our allies will assist us with twelve or fifteen thousand land troops, and an undisputed maritime superiority. Then, with the aid of the militia, drawn out for a few months, we may undertake and succeed. Our true policy, in the meantime, is, to endeavor to form a solid compact force, proportioned to our necessities.

addition to her revenue, can do little more than satisfy her own wants. The death of the Empress Queen, and the notorious hostility of the Emperor, will add to the number of these. She will, in all probability, be obliged to pay greater attention to her army, which has been neglected, for several years past, to apply all the resources of the kingdom to the improvement of the navy. Though Russia and Prussia, by the last advices, seemed disposed to control the ill-humor of the Emperor, France will hardly think it prudent to leave herself in a defenceless condition, relying on the precarious friendship and momentary interests of other powers. The increase of her army will necessarily increase her expenses, as she cannot, in the present state of things, retrench any thing from the navy; and of course she will have less money to spare to allies. It has been observed, that France has hitherto imposed none of the additional taxes usual in time of war; by doing which, it is imagined she would have it in her power, not only to supply her own wants better, but to contribute largely to ours. To this it has been answered, with great appearance of reason, that the credit of the financier very much depends on his having such a resource in reserve, which, being considered as a means he may command, when necessary, to fulfil his engagements, disposes moneyed men to lend to him with the greater freedom and confidence. The breaking in upon that resource, therefore (it is said), would injure credit, and obstruct loans in a degree that could not be compensated by the direct value of the revenue it would furnish.

Upon the whole, however, from a variety of siftings and inquiries, I should be mistaken if France did not lend this country eight or ten millions of livres annually, during the war; provided its finances were once put upon a reasonable footing: but this is not above a third of our wants.

I find no reason to flatter ourselves that we have much to expect either from the ability or inclination of Spain. Her government is far from being so rich as is vulgarly imagined. The mines of South America, of late years, have been less liberal of their profits; and, for fear of accidents, but a small part of their product, since the war, has been imported into Europe. The extreme indolence of the Spaniards, and their neglect of agriculture, manufactures, and trade, make them tributary to their more industrious neighbors, who drain them of their precious metals as fast as they arrive.

But if they were heartily disposed to do it, they might still afford us some assistance. Their conduct hitherto has manifested no such disposition; it has been as cold and reserved as it could well be. The bills drawn upon them have not been rejected, but they have not been paid. Their permitting the residence of a British emissary among them, and the countenance they give him, unprecedented in a state of war, afford just room for a distrust of their intentions, though it may be nothing more than a stroke of policy, to play him off against our negotiators, and make us bid higher for their friendship. Their method of prosecuting the war is passive to a degree that can scarcely be resolved even into Span-

ish supineness, but seems to have a more corrupt original. A bigoted prince, governed by a greedy confessor, is a character on which little dependence can be placed.

'T is not on Spain, then, that we are to build our hopes of any considerable succors in money.

The Dutch Government has of long standing mortgaged all its revenues. Taxation has been carried to a length that admits of little extension. 'T is from its credit with its own citizens that it must derive the means of making war. It has every thing to do. Its fleet is to be in a manner created anew and its land forces to be recruited, having been for some time past suffered to decline very much. It will, therefore, stand in need of all its credit for its own uses. Of course, we have nothing to expect from the government of that country.

The individuals will not have confidence enough in our public councils to embark any considerable part of their fortunes with us on the ordinary principles of a loan. Stronger inducements, the prospect of commercial advantages, securities differing from the mere faith of the United States, must be held out to tempt them to engage far with us. The plan I am going to propose endeavors to conciliate these objects.

As to internal loans, on which, after all, we must chiefly depend, there are two things that operate against them to any large amount: the want of a sufficient number of men with sufficient moneyed capitals to lend the sums required, and the want of

confidence in those who are able to lend to make them willing to part with their money. It may be added that they can employ it to greater advantage in traffic than by merely lending it on interest.

To surmount these obstacles, and give individuals ability and inclination to lend in any proportion to the wants of government, a plan must be devised which, by incorporating their means together and uniting them with those of the public, will, on the foundation of that incorporation and union, erect a mass of credit that will supply the defect of moneyed capital, and answer all the purposes of cash; a plan which will offer adventurers immediate advantages, analogous to those they receive by employing their money in trade, and eventually greater advantages; a plan which will give them the greatest security the nature of the case will admit for what they lend; and which will not only advance their own interest and secure the independence of their country, but, in its progress, have the most beneficial influence upon its future commerce, and be a source of national strength and wealth.

I mean the institution of a NATIONAL BANK. This I regard, in some shape or other, as an expedient essential to our safety and success; unless, by a happy turn of European affairs, the war should speedily terminate in a manner upon which it would be unwise to reckon. There is no other that can give to government that extensive and systematic credit which the defect of our revenues makes indispensably necessary to its operations.

The longer it is delayed the more difficult it be-

comes. Our affairs grow every day more relaxed and more involved; public credit hastens to a more irretrievable catastrophe; the means for executing the plan are exhausted in partial and temporary efforts. The loan now making in Massachusetts would have gone a great way in establishing the funds on which the bank must stand.

I am aware of all the objections that have been made to public banks; and that they are not without enlightened and respectable opponents. But all that has been said against them only tends to prove that, like all other good things, they are subject to abuse, and, when abused, become pernicious. The precious metals, by similar arguments, may be proven to be injurious. It is certain that the mines of South America have had great influence in banishing industry from Spain, and sinking it in real wealth and importance. Great power, commerce, and riches, or, in other words, great national prosperity, may, in like manner, be denominated evils; for they lead to insolence, an inordinate ambition, a vicious luxury, licentiousness of morals, and all those vices which corrupt government, enslave the people, and precipitate the ruin of a nation. But no wise statesman will reject the good from an apprehension of the ill. The truth is, in human affairs there is no good, pure and unmixed; every advantage has two sides; and wisdom consists in availing themselves of the good, and guarding as much as possible against the bad.

The tendency of a national bank is to increase public and private credit. The former gives power

to the state, for the protection of its rights and interests: and the latter facilitates and extends the operations of commerce among individuals. Industry is increased, commodities are multiplied, agriculture and manufactures flourish: and herein consists the true wealth and prosperity of a state.

Most commercial nations have found it necessary to institute banks; and they have proved to be the happiest engines that ever were invented for advancing trade. Venice, Genoa, Hamburg, Holland, and England are examples of their utility. They owe their riches, commerce, and the figure they have made at different periods, in a great degree to this source. Great Britain is indebted for the immense efforts she has been able to make, in so many illustrious and successful wars, essentially to that vast fabric of credit raised on this foundation. 'T is by this alone she now menaces our independence.

She has, indeed, abused the advantage, and now stands on a precipice. Her example should both persuade and warn us. 'T is in republics where banks are most easily established and supported, and where they are least liable to abuse. Our situation will not expose us to frequent wars; and the public will have no temptation to overstrain its credit.

In my opinion, we ought not to hesitate, because we have no other resource. The long and expensive wars of King William had drained England of its specie; its commerce began to droop for want of a proper medium: its taxes were unproductive, and its revenues declined. The administration wisely

had recourse to the institution of a bank; and it relieved the national difficulties. We are in the same, and still greater, want of a sufficient medium. We have little specie; the paper we have is of small value, and rapidly descending to less: we are immersed in a war for our existence as a nation, for our liberty and happiness as a people: we have no revenues and no credit. A bank, if practicable, is the only thing that can give us either the one or the other.

Besides these great and cardinal motives to such an institution, and the advantages we should enjoy from it, in common with other nations, our situation, relatively to Europe and to the West Indies, would give us some peculiar advantages.

Nothing is more common than for men to pass from the abuse of a good thing, to the disuse of it. Some persons, disgusted by the depreciation of the money, are chimerical enough to imagine it would be beneficial to abolish all paper credit, annihilate the whole of what is now in circulation, and depend altogether upon our specie, both for commerce and finance. This scheme is altogether visionary, and in the attempt would be fatal. We have not a competent stock of specie in this country, either to answer the purposes of circulation in trade, or to serve as a basis for revenue. The whole amount of what we have, I am persuaded, does not exceed six millions of dollars, one fifth of the circulating medium before the war. To suppose this would be sufficient for the operations of commerce, would be to suppose that our domestic and foreign

commerce were both reduced four fifths: a supposition that carries absurdity on the face of it. It follows that if our paper money were destroyed, a great part of the transactions of traffic must be carried on by barter; a mode inconvenient, partial, confined, destructive both of commerce and industry. With the addition of the paper we now have, this evil exists in too great a degree.

With respect to revenue, could the whole of our specie be drawn into the public treasury annually, we have seen that it would be little more than one half of our annual expense. But this would be impracticable; it has never been effected in any country. Where the numerary of a country is a sufficient representative, there is only a certain proportion of it that can be drawn out of daily circulation; because, without the necessary quantity of cash, a stagnation of business would ensue. How small, then, would be the proportion of the six millions (in itself so unequal a representative) which the public would be able to extract in revenue. It must either have little or no revenue, or it must receive its dues in kind; on the inefficacy and inconveniences of which mode, I have already remarked. The necessity for it, in part, unhappily now has place, for the cause assigned, a deficiency of current cash: but were we to establish it as our principal dependence, it would be impossible to contrive a mode less productive to the public, more contrary to the habits and inclinations of the people, or more baneful to industry.

But waiving the objections on this head, there

would still remain a balance of four millions of dollars more than these States can furnish in revenue, which must be provided for the yearly expense of the war. How is this to be procured without a paper credit, to supply the deficiency of specie, and enable the moneyed men to lend? This question, I apprehend, will be of no easy solution.

In the present system of things, the health of a State, particularly a commercial one, depends on a due quantity and regular circulation of cash, as much as the health of an animal body depends upon the due quantity and regular circulation of the blood. There are indisputable indications that we have not a sufficient medium; and what we have is in continual fluctuation. The only cure to our public disorders, is to fix the value of the currency we now have, and increase it to a proper standard, in a species that will have the requisite stability.

The error of those who would explode paper money altogether, originates in not making proper distinctions. Our paper was, in its nature, liable to depreciation, because it had no funds for its support, and was not upheld by private credit. The emissions under the resolution of March, '80, have partly the former advantage, but are destitute of the latter, which is equally essential. No paper credit can be substantial, or durable, which has no funds, and which does not unite, immediately, the interest and influence of the moneyed men, in its establishment and preservation. A credit begun on this basis, will, in process of time, greatly exceed its funds: but this requires time and a well-settled

opinion in its favor. 'T is in a national bank, alone, that we can find the ingredients to constitute a wholesome, solid, and beneficial credit.

I am aware that, in the present temper of men's minds, it will be no easy task to inspire a relish for a project of this kind: but much will depend on the address and personal credit of the proposer. In your hands I should not despair: and I should have the greater hopes for what I am informed appeared to be the disposition, at the promulgation of the plan for a loan in Massachusetts. The men of property in America are enlightened about their own interest, and would easily be brought to see the advantages of a good plan. They ought not to be discouraged at what has happened heretofore, when they behold the administration of our finances put into a better channel. The violations of public engagements, hitherto, have proceeded more from a necessity produced by ignorance and mismanagement, than from levity or a disregard to the obligations of good faith.

Should the success, in the first instance, not be as complete as the extent of the plan requires, this should not hinder its being undertaken. It is of the nature of a bank, wisely instituted, and wisely administered, to extend itself, and, from small beginnings, grow to a magnitude that could not have been foreseen.

The plan I propose requires a stock of three millions of pounds, lawful money; but if one half the sum could be obtained, I should entertain no doubt of its full success. It now remains to submit my

plan, which I rather offer as an outline, than as a finished plan. It contains, however, the general principles. To each article I shall affix an explanatory remark.

ART. I. A bank to be erected with a stock of three millions of pounds, lawful money, at the rate of six shillings to a dollar, divided into thirty thousand shares. This stock to be exempted from all public taxes and impositions whatsoever.

REMARK I. By the second Article, a part of the stock is to be in landed security; by this, the whole is to be exempted from taxes. Here will be a considerable saving to the proprietor, which is to be estimated among the clear profits of the bank. This will indeed be a small reduction of the public revenue; but the loss will be of little consequence, compared with the advantages to be derived from the bank.

ART. II. A subscription to be opened for the amount of the stock. A subscriber of from one share to five, to advance the whole in specie. A subscriber of six shares to fifteen, to advance one half in specie, the other half in good landed security. A subscriber of sixteen shares, and upwards, to advance two sixths in specie, one sixth in bills of securities on good European funds, and three sixths in good landed security. In either case of specie, plate or bullion, at a given value, proportioned to its quality, may be substituted; and in either case of landed security, specie, good bills, or securities on European funds, to be admissible in their stead.¹

¹ The possibility of making up so large a proportion of specie will depend on foreign assistance. It could hardly be hoped to effect it

REMARK 2. By admitting landed security as a part of the bank stock, while we establish solid funds for the money emitted, we at the same time supply the defect of specie, and we give a strong inducement to moneyed men to advance their money; because, not only the money actually deposited is to be employed for their benefit, but, on the credit of their landed security, by the seventh Article, may be raised an equal amount in cash, to be also employed for their benefit; by which artifice they have the use of their land (exempted, too, from taxes), and the use of the value of it in a representative cash. In this consists a capital advantage of the bank to the proprietors. A, for instance, advances six hundred pounds in specie, and as much more in landed security. By the establishment he may draw bank-notes for the whole of his stock, that is, for twelve hundred pounds, when he only advances half the sum in money. These bank-notes operating as cash, his land (continuing as we observed above, in his own use, with the privilege besides of an exemption from taxes) is converted into cash; which he may employ in loans, in profitable contracts, in beneficial purchases, in discounting bills of exchange, and in the other methods permitted in the subsequent Articles. Besides all this, when the bank-notes have once acquired a fixed credit, he is not obliged to keep his six hundred pounds, deposited in specie, idle; he may lend or otherwise improve, a part of that also. These advantages will not exist in their full extent at first, but they will soon succeed each other.

within ourselves, if, as I suppose, there are not more than six millions of dollars in these States. It is true, plate is admitted; but it is uncertain how far this may prove a resource. It were to be wished the proportion of specie might be as large as possible; but, perhaps, for fear of a failure, it may be advisable to alter the above proportions, so as to have, upon the whole, about one third in specie, and two thirds in European funds and landed security.

ART. III. The bank to be erected into a legal corporation; to have all the powers and immunities requisite to its security, to the recovery of its debts, and to the disposal of its property.

REMARK 3. This Article needs no illustration.

ART. IV. The stock of the bank not to be liable to any attachment or seizure whatsoever; but, on refusal of payment, the holders of bank-notes, or bonds, may enter suit against any member, or members, of the corporation; and, as far as their respective shares in the bank extend, recover the debt, with cost and damages, out of their private property.

REMARK 4. The first part of this regulation is necessary to engage foreigners to trust their property in the bank; the latter part to give an idea of security to the holders of bank-notes.

ART. V. The United States, or any particular States, or foreigners, may become subscribers to the bank, and participate in its profits, for any sums not exceeding the whole half the stock.

REMARK 5. This will link the interests of the public more intimately with the bank, and be an easy method of acquiring revenue. It will also facilitate the making up its stock by the loans which Congress may obtain abroad; without which it would be more difficult to raise so large a sum. It is essential the stock should be large, because, in proportion to it, will be the credit of the bank, and of course its ability to lend and enlarge its paper emissions. The admission of foreigners will also assist the completing the stock; and it is probable many may

be induced to enter into the plan, especially after it has made some progress among ourselves, and obtained a degree of consistency.

The sum is limited to one half the stock, because it is of primary importance that the moneyed men among ourselves should be deeply interested in the plan.

ART. VI. The United States, collectively and particularly, to become responsible for all the transactions of the bank, conjointly with the private proprietors.

REMARK 6. This mode of pledging the public faith makes it as difficult to be infringed as could possibly be devised. In our situation it is expedient to offer every appearance of security. Foreigners are more firmly persuaded of the establishment of our independence than of the continuance of our union; and will, therefore, have more confidence in the States bound separately than collectively. Individuals among ourselves will be influenced by similar considerations.

ART. VII. The bank to issue notes payable at sight in pounds, shillings, and pence, lawful; all of twenty shillings, and under, to bear no interest; all above, to bear an interest not exceeding four per cent. The notes to be of so many denominations as may be judged convenient for circulation, and of two kinds; one payable only in America, the other payable either in America or in any part of Europe where the bank may have funds. The aggregate of these notes never to exceed the bank stock.

REMARK 7. The reason of having them payable at sight is to inspire the greater confidence and give them a

readier currency; nor do I apprehend there would be any danger from it. In the beginning some may be carried to the bank for payment, but finding they are punctually discharged, the applications will cease. The notes are payable in pounds, shillings, and pence, rather than in dollars, to produce an illusion in the minds of the people favorable to the new paper; or rather to prevent their transferring to that their prejudices against the old. Paper credit depends much on opinion, and opinion is often guided by outside appearances. A circumstance trivial as this may seem, might have no small influence on the popular imagination. And if twenty shillings, and under, are without interest, because such small sums will be diffused in the lesser transactions of daily circulation, there will be less probability of their being carried to the bank for payment.

The interest on the larger notes is calculated to give them a preference to specie, and prevent a run upon the bank. The notes, however, must be introduced by degrees, so as not to inundate the public at once. Those bearing no interest ought not to be multiplied too much at first; but as the interest is an abridgment of the profits of the bank, after the notes have gained an unequivocal credit, it will be advantageous to issue a large proportion of the smaller ones. At first, the interest had best be at four per cent., to operate the more effectually as a motive; afterward, on the new notes, it may be gradually diminished; but it will always be expedient to let them bear an interest not less than two per cent.

The making some of the notes payable in Europe as well as in America, is necessary to enable the bank to avail itself of its funds there; it will also serve to raise the demand for bank-notes, by rendering them useful in foreign commerce, the promoting which is a further inducement.

The limiting the aggregate of the notes to the amount of the stock, is necessary to obviate a suspicion of their being multiplied beyond the means of redemption.

ART. VIII. The bank to lend money to the public, or to individuals, at an interest not exceeding eight per cent.

REMARK 8. In the beginning it will be for the advantage of the bank to require high interest, because the money is in great demand, and the bank itself will want the principal part of its cash for the loans stipulated in Article XIII., and for performing the contracts authorized by Article XII.; so that the profits will not, for some time, turn materially on the principle of loans, except that to the public. But when the contracts cease, the bank will find its advantage in lending, at a moderate interest, to secure a preference from borrowers, which will, at the same time, promote commerce; and by a kind of mutual reaction, the bank will assist commerce, and commerce will assist the bank.

ART. IX. The bank to have liberty of borrowing, on the best terms it can, to the amount of one half of its stock.

REMARK 9. This is a precaution against a sudden run. It may borrow in proportion to what it pays. It has another advantage: at particular conjunctures the bank may borrow at a low interest, and lend, at others, at a higher.

ART. X. The bank to have liberty of purchasing estates by principal, or by annuities; the power of coining to the amount of half its stock, the quantity

of alloy, etc., being determined by Congress; also the power of discounting bills of exchange.

REMARK 10. This privilege of purchasing estates will be a very valuable one. By watching favorable opportunities, with so large a capital, vast property may be acquired in this way. There will be a fine opening at the conclusion of the war. Many persons disaffected to our independence, who have rendered themselves odious without becoming obnoxious to the laws, will be disposed to sell their estates here, either for their whole value, or for annuities in Europe. The power of coining¹ is necessary, as plate, or bullion, is admitted instead of specie; and it may be, on particular occasions, expedient to coin them; this will be a small resource to the bank. The power of discounting bills of exchange will be a considerable one. Its advantages will consist in purchasing, or taking up for the honor of the drawer, when the security is good, bills of exchange at so much per cent. discount. A large profit might be now made in this way on the bills drawn on France; and hereafter, in times of peace, when commerce comes to flourish, this practice will promote the transactions of the several States with each other, and with Europe, and will be very profitable to the bank.

ART. XI. The bank to receive from individuals deposits of any sums of money, to be repaid when called for, or passed, by order, to the credit of others; or deposits of plate, paying a certain annual rate for safe-keeping. Whatever is deposited in the bank, to be exempt from taxes.

¹ It may, perhaps, not be impossible to make some profitable speculations on the bullion which the Spaniards are afraid to transport from South America to Europe.

REMARK 11. This is in imitation of the Bank of Amsterdam. If individuals once get into the practice of depositing their money in bank, it will give credit to the bank, and assist trade. In time, a premium may be required at repayment as in Holland. A small profit may be immediately gained on plate, as the States begin to tax this article; and many persons will dispense at this time with the use of their plate, if they can deposit it in a place of safety, and pay less for keeping it than the tax. Whatever serves to increase the apparent wealth of the bank, will enhance its credit! It may even be useful to let the owners of the plate have credit in bank for the value of the plate, estimated on a scale that would make it for the advantage of the bank to purchase.

ART. XII. The bank to have a right to contract with the French Government for the supply of its fleets and armies in *America*, and to contract with Congress for the supply of their armies.

REMARK 12. It will be of great importance to the success of the subscriptions, that a previous assurance of these contracts should take place: the profits of them would be no trifling inducement to adventurers; it would have the air of employing the money subscribed in trade. As soon, therefore, as the plan should be resolved upon, negotiations should be begun for the purpose. It is so clearly the interest of the French Government to enter into these contracts, that they must be blind not to do it, especially when it is proposed under the aspect of a method of re-establishing our finances. The present loss on their bills is enormous. The bank may engage to receive them at a moderate discount, and to supply on better terms than they now make. Their business is at this time trusted to a variety of hands, some of which are

neither very skilful nor very honest: competitions, frauds, and additional expense, are the consequences.

Congress could not hesitate on their part, as the amount of the contracts would be a part of the loan required in Article XIII.

ART. XIII. The bank to lend Congress one million two hundred thousand pounds, lawful, at eight per cent. interest; for the payment of which, with its interest, a certain unalienable fund of one hundred and ten thousand four hundred pounds per annum, to be established for twenty years. The States, generally and severally, to pledge themselves for this sum, and for the due appropriation of the fund. Congress to have a right, at any intermediate period, to pay off the debt, with the interest to the time of payment. The same rule to govern in all future loans.

REMARK 13. This loan will enable Congress to get through the expenses of the year. There may be a small deficiency, but this will be easily supplied. The credit of the bank once established, it may increase its stock, and lend an equal sum every year during the war. This loan may be advanced, partly in a contract for provisions, clothing, etc., and partly in cash, at periodical payments, to avoid a too quick multiplication of bank-notes.

ART. XIV. The bank to become responsible for the redemption of all the paper now emitted; the old, at forty for one in thirty years, the new at par, with gold and silver, according to the terms promised by Congress in their resolution of March, '80. One third of the first to be redeemed at the end of

every ten years; and the whole of the last to be redeemed at the expiration of the six years specified by Congress, with the interest of five per cent. The United States, in compensation for this responsibility, to establish certain funds for an annuity, payable to the bank, equal to the discharge of the whole amount of the paper currency in thirty years, with an interest of two per cent. per annum.

REMARK 14. It is of the greatest importance that the old currency should be fixed at a certain value, or there will be danger of its infecting the future paper; besides, we want to raise it to a point that will make it approach nearer to an adequate medium. I have chosen the resolution of March, '80, as a standard. We ought not, on any account, to raise the value of the old paper higher than forty to one, for this will give it about the degree of value that is most salutary; at the same time that it will avoid a second breach of faith, which would cause a violent death to all future credit. A stable currency is an idea fundamental to all practicable schemes of finance. It is the duty and interest of the public to give stability to that which now exists; and it will be the interest of the bank, which alone can effect it, to cooperate. I have not mentioned the amount of the annuity to be paid by Congress, because I have not materials to judge what quantity of paper money now exists; since it will be necessary to take all the State emissions into the calculation. I suppose (including State emissions) there may be about four hundred millions of dollars of the old standard, and about four millions of the new.¹ This will give us, in specie-value, about fourteen mil-

¹ It is impossible too soon to make some arrangement that will enable Congress to put a stop to the further emission.

lions of dollars. This is what the bank is to become answerable for, and what the public is to pay, by an annuity of thirty years, with two per cent. interest. This annuity would amount to six hundred and eleven thousand three hundred and thirty-three and one third dollars, for which funds are to be provided.

By a rough calculation, I find that the bank would gain, in the thirty years, about three millions of dollars, on the simple footing of interest; and that it will, at different periods, have more public money in its possession than it will be in advance at others; so that, upon the whole, the sum it will gain in interest will be for the loan of its credit to the public, not of any specific sum of cash. Besides, the interest of the bank may gain a very considerable sum by the purchases it may make of the old paper at its current value, before the influence of this plan has time to bring it back to the point at which it is intended to be fixed.¹ It is the obvious interest of the United States to concur in this plan, because, by paying three millions of dollars in interest to the bank, more than it would have to pay to the money-holders, agreeably to its present engagements, it would avoid a new breach of faith, fix its circulating medium increased in value more than one half, render the taxes more productive, and introduce order into its finances, without which our independence is lost. It will also have only about two thirds of the funds to establish for this plan that are required by the act of March, '80, to discharge the new bills; it will, of course, reserve a large balance toward the current expenses, which is no insignificant consideration.

Perhaps it may be imagined that the same funds

¹ There is another immense consideration. The proprietors of the bank will be the holders of a great part of this paper. They have it in their power to double the value of it by this plan, which is, in other words, to gain a hundred per cent.

established for the redemption of the money in the same time, without passing through the bank, would have an equal effect upon its credit, and then we should save the interest of two per cent. Experience proves the contrary. We find the new notes depreciating in the States which have provided good funds. The truth is, there is not confidence enough in any funds merely public. The responsibility of the bank would beget a much stronger persuasion of the paper being redeemed, and have incomparably more efficacy in raising and confirming its credit. Besides, the bank might immediately reduce the quantity by purchase, which the public could not do.

It will be observed that of the six millions of dollars which constitute our annual revenue, I require nine hundred and seventy-nine thousand three hundred and thirty-three and one third dollars, in funds, to reimburse the loan for the first year, and pay off the annuity for the redemption of the old paper. It may be asked, where these funds are to be procured in the present impotence of our Federal Government. I answer, there are ample means for them, and they must be had. Congress must deal plainly with their constituents. They must tell them that power without revenue is a bubble; that unless they give them substantial resources of the latter, they will not have enough of the former either to prosecute the war or to maintain the Union in peace; that, in short, they must, in justice to the public and to their own honor, renounce the vain attempt of carrying on the war without either, a perseverance in which, can only deceive the people, and betray their safety. They must demand an instant, positive, and perpetual investiture of an impost on trade; a land tax and a poll tax, to be collected by their own agents. This act to become a part of the Confederation.

It has ever been my opinion that Congress ought to

have complete sovereignty in all but the mere municipal law of each State; and I wish to see a convention of all the States, with full power to alter and amend, finally and irrevocably, the present futile and senseless Confederation.

The taxes specified may be made to amount to three millions of dollars; the other three millions to be raised by requisition, as heretofore.

ART. XV. The bank-notes to be received in payment of all public customs and taxes, at an equivalent with gold and silver.

REMARK 15. It is essential that all taxes should be raised, throughout the United States, in specie, or bank-notes at par, or the old paper at its current value at the time of payment. This will serve to increase the circulation and credit of the bank-notes; but no person should be obliged to receive them in private dealings. Their credit must depend on opinion; and this opinion would be injured by legislative interposition.

ART. XVI. The bank to dissolve itself whenever it thinks proper, making effectual provision for the payment of its debts; and a proprietor of bank stock to have the privilege of selling out whenever he pleases.

REMARK 16. This permission to dissolve or sell at pleasure will encourage men to adventure; and, when once engaged, the profits will make them willing to continue.

ART. XVII. The bank to be established for thirty years by way of experiment.

REMARK 17. This is chiefly to prevent some speculative men being alarmed, who, upon the whole, may think a paper credit detrimental and dangerous, though they would be willing, from necessity, to encourage it for a limited time. Experience, too, may show the defects of this plan, and give rise to alterations for the better.

ART. XVIII. No other bank, public or private, to be permitted during that period.

REMARK 18. Other banks might excite a competition prejudicial to the interests of this, and multiply and diversify paper credit too much.

ART. XIX. Three banks to be erected in Massachusetts, Pennsylvania, and Virginia, to facilitate the circulation and payment of the bank-notes.

REMARK 19. These banks ought to be in the interior of the country, remote from danger, with every precaution for their security in every way. Their distance from the capital trading points will be an advantage, as it will make applications for the payment of bank-notes less convenient.

ART. XX. The affairs of the bank to be managed by twelve general directors, men of reputation and fortune; eight of them to be chosen by the private proprietors, and four by Congress. The Minister of Finance to have the privilege of inspecting all their proceedings.

REMARK 20. It is necessary, for reciprocal security of the public, the proprietors, and the people, that the affairs of the bank should be conducted under a joint direction.

These, as has been already observed, are only intended as outlines; the form of administration for the bank, and all other matters, may be easily determined, if the leading principles are once approved. We shall find good models in the different European banks, which we can accommodate to our circumstances. Great care, in particular, should be employed to guard against counterfeits; and I think methods may be devised that would be effectual.

I see nothing to prevent the practicability of a plan of this kind, but a distrust of the final success of the war, which may make men afraid to risk any considerable part of their fortunes in the public funds; but, without being an enthusiast, I will venture to assert, that, with such a resource as is here proposed, the loss of our independence is impossible. All we have to fear is, that the want of money may disband the army, or so perplex and enfeeble our operations as to create in the people a general disgust and alarm, which may make them clamor for peace on any terms. But if a judicious administration of our finances, assisted by a bank, takes place, and the ancient security of property is restored, no convulsion is to be apprehended. Our opposition will soon assume an aspect of system and vigor, that will relieve and encourage the people, and put an end to the hopes of the enemy. 'Tis evident that they have it not in their power to subdue us by force of arms. In all these States they have not more than fifteen thousand effective troops, nor is it possible for them much to augment this number. The East and West Indies demand reinforcements. In all the

islands, they have not, at this time, above five thousand men; a force not more than equal to the proper garrisoning of Jamaica alone; and which, the moment they lose a maritime superiority in those seas, will leave them much cause to fear for their possessions. They will probably send out fifteen hundred to two thousand men, to recruit their regiments already here; but this is the utmost they can do.

Our allies have five thousand men at Rhode Island, which, in the worst event that can happen, will be recruited to eight, to co-operate with us on a defensive plan. Should our army amount to no more than fifteen thousand men, the combined forces, though not equal to the expulsion of the enemy, will be equal to the purpose of compelling them to renounce their offensive, and to content themselves with maintaining one or two capital points. This is on the supposition that the public have the means of putting their troops in activity. By stopping the progress of their conquests, and reducing them to an unmeaning and disgraceful defensive, we destroy the national expectation of success, from which the ministry draw their resources. It is not a vague conjecture, but a fact founded on the best information, that, had it not been for the capture of Charleston and the victory of Camden, the ministry would have been in the utmost embarrassment for the supplies of this year. On the credit of those events they procured a loan of five and twenty millions. They are in a situation where a want of splendid success is ruin. They

have carried taxation nearly to its extreme boundary; they have mortgaged all their funds; they have a large unfunded debt, besides the enormous mass which is funded. This must necessarily create apprehensions in their most sanguine partisans; and if these are not counteracted by flattering events, from time to time, they cannot much longer continue the delusion. Indeed, in this case, I suppose they must themselves despair.

The game we play is a sure game, if we play it with skill. I have calculated, in the preceding observations, on the most disadvantageous side. Many events may turn up, in the course of the summer, to make even the present campaign decisive.

If we compare the real ability of France, for revenue, with that of Great Britain; the economy and sagacity in the conduct of the finances of the former; the extravagance and dissipation which are overwhelming those of the latter; there will be found every reason to believe that the resources of France will outlast those of her adversary. Her fleet is not much inferior, independent of that of Spain and Holland. Combined with that of Spain, it is greatly superior. If the Dutch enter into the war in earnest, and add their fleet, the superiority will be irresistible. Notwithstanding the injury they may sustain in the first instance, the Dutch will be still formidable: they are rich in credit, and have extensive means for maritime power.

Except the Emperor, who is hostile, and the Dane, who is neutral, all the rest of Europe are either friends to France or to our independence.

Never did a nation unite more circumstances in its favor than we do; we have nothing against us but our own misconduct.

There are two classes of men among us, equally mistaken: one who, in spite of daily experience, of accumulated distress, persist in a narrow line of policy, and, amidst the most threatening dangers, fancy every thing in perfect security. Another, who, judging too much from the outside, alarmed by partial misfortunes and the disordered state of our finances, without estimating the real faculties of the parties, give themselves up to an ignorant and ill-founded despondency. We want to learn to appreciate our true situation and that of the enemy. This would preserve us from a stupid insensibility to danger on the one hand, and inspire us with a reasonable and enlightened confidence on the other.

But let us suppose the worst—that we shall, after all, fail in our independence; our return to Great Britain, whenever it should happen, would be by compact. The war would terminate by a mediation. It cannot be supposed that the mediator would be so devoted to Great Britain, or would have so little consideration for France, as to oblige us to revert to our former subjection by an unconditional surrender. While they might confirm his dominion over us, they would endeavor to save appearances for the honor of France, and stipulate terms as favorable to us as would be compatible with a state of dependence. A general amnesty, and the security of private property (of course, the payment of public debts), would be among the most simple and

most indispensable. This would comprehend the concerns of the bank; and if, unfortunately for our virtue, such a circumstance could operate as an inducement, it might be added that our enemies would be glad to find and to encourage such an institution among us for their own benefit.

A question may arise concerning the abilities of these States to pay their debts after the establishment of their independence; and though any doubt on this head must originate from gross ignorance, it may be necessary to oppose it with more than general argument, as has been done heretofore. A very summary and obvious calculation will show that there is nothing to be dreaded on this head.

The funds of nine hundred and seventy-nine thousand three hundred and thirty-three and one third dollars, proposed to be established for paying off the loan of the first year and for redeeming the present paper, will in thirty years wipe off all the debts of the States, except those contracted to foreigners, which, I imagine, do not amount to four millions of dollars. Suppose we should be obliged, for two years besides the present, to borrow an equal sum each year from the bank; the fund requisite to discharge these loans, on the same terms as the first, will amount to seven hundred and thirty-six thousand dollars, to be deducted from the five million and twenty thousand six hundred and sixty-six and two thirds dollars remaining on the annual revenue, which will reduce it to four millions two hundred and eighty-four thousand six hundred and sixty-six and two thirds dollars; then the debt unfunded will be:

To foreigners already contracted by supposition	\$4,000,000
Deficiency of revenue to the expense to be obtained on credit, the first year, besides the loan from the bank	1,479,333 $\frac{1}{3}$
Deficiency of revenue for the second year, deducting the fund for discharging the loan of this year	1,847,333 $\frac{1}{3}$
Deficiency of revenue for the third year, making the same deduction	<u>2,215,333$\frac{1}{3}$</u>
	\$9,542,000

Should, then, the war last three years longer, which must probably be the utmost term of its duration, we shall find ourselves with an unfunded debt of nine million five hundred and forty-two thousand dollars, and an unappropriated revenue of four million two hundred and eighty-four thousand six hundred and sixty-six and two thirds dollars.

The surplus of four millions, which is two hundred and eighty-four thousand six hundred and sixty-six and two thirds dollars, and the funds appropriated to the payment of the other debts which will revert to the public at the end of thirty years, will be a sufficient fund for the redemption of this debt in about thirty-five years; so that, according to my plan, at the end of thirty-five years these States have paid off the whole debt contracted on account of the war; and, in the meantime, will have a clear revenue of four millions of dollars for defraying the expenses of their civil and military establishments.

This calculation supposes the ability of these States for revenue to continue the same as they now are, which is a supposition both false and unfavor-

able. Speaking within moderate bounds, our population will be doubled in thirty years; there will be a confluence of emigrants from all parts of the world, our commerce will have a proportionable progress, and of course our wealth and capacity for revenue. It will be a matter of choice if we are not out of debt in twenty years, without at all encumbering the people.

A national debt, if it is not excessive, will be to us a national blessing. It will be a powerful cement of our Union. It will also create a necessity for keeping up taxation to a degree which, without being oppressive, will be a spur to industry, remote as we are from Europe, and shall be from danger. It were otherwise to be feared our popular maxims would incline us to too great parsimony and indulgence. We labor less now than any civilized nation of Europe; and a habit of labor in the people is as essential to the health and vigor of their minds and bodies, as it is conducive to the welfare of the state. We ought not to suffer our self-love to deceive us in a comparison upon these points.

I have spun out this letter to a much greater length than I intended. To develop the whole connection of my ideas on the subject, and place my plan in the clearest light, I have indulged myself in many observations which might have been omitted. I shall not longer intrude upon your patience than to assure you of the sincere sentiments of esteem with which I have the honor to be,

Sir, your most obedient and humble servant,

A. HAMILTON.

NATIONAL BANK

Communicated to the House of Representatives, December 14, 1790.

TREASURY DEPARTMENT, December 13, 1790.

In obedience to the order of the House of Representatives of the ninth day of August last, requiring the Secretary of the Treasury to prepare and report on this day such further provision as may, in his opinion, be necessary for establishing the public credit, the said Secretary further respectfully reports:

That, from a conviction (as suggested in his report herewith presented¹) that a national bank is an institution of primary importance to the prosperous administration of the finances, and would be of the greatest utility in the operations connected with the support of the public credit, his attention has been drawn to devising the plan of such an institution, upon a scale which will entitle it to the confidence, and be likely to render it equal to the exigencies, of the public.

Previously to entering upon the detail of this plan, he entreats the indulgence of the House towards some preliminary reflections naturally arising out of the subject, which he hopes will be deemed neither useless nor out of place. Public opinion being the ultimate arbiter of every measure of government, it can scarcely appear improper, in deference to that, to accompany the origination of any new proposition with explanations, which the superior informa-

¹ See Report on "Public Credit," vol. ii., p. 337.

tion of those to whom it is immediately addressed would render superfluous.

It is a fact, well understood, that public banks have found admission and patronage among the principal and most enlightened commercial nations. They have successively obtained in Italy, Germany, Holland, England, and France, as well as in the United States. And it is a circumstance which cannot but have considerable weight, in a candid estimate of their tendency, that after an experience of centuries, there exists not a question about their utility in the countries in which they have been so long established. Theorists and men of business unite in the acknowledgment of it.

Trade and industry, wherever they have been tried, have been indebted to them for important aid, and government has been repeatedly under the greatest obligations to them in dangerous and distressing emergencies. That of the United States, as well in some of the most critical conjunctures of the late war, as since the peace, has received assistance from those established among us, with which it could not have dispensed.

With this twofold evidence before us, it might be expected that there would be a perfect union of opinions in their favor. Yet doubts have been entertained; jealousies and prejudices have circulated; and, though experience is every day dissipating them, within the spheres in which effects are best known, yet there are still persons by whom they have not been entirely renounced. To give a full and accurate view of the subject, would be to make

a treatise of a report; but there are certain aspects in which it may be cursorily exhibited, which may perhaps conduce to a just impression of its merits. These will involve a comparison of the advantages, with the disadvantages, real or supposed, of such institutions.

The following are among the principal advantages of a bank:

First.—The augmentation of the active or productive capital of a country. Gold and silver, when they are employed merely as the instruments of exchange and alienation, have not been improperly denominated dead stock; but when deposited in banks, to become the basis of a paper circulation, which takes their character and place, as the signs or representatives of value, they then acquire life, or, in other words, an active and productive quality. This idea, which appears rather subtle and abstract in a general form, may be made obvious and palpable, by entering into a few particulars. It is evident, for instance, that the money which a merchant keeps in his chest, waiting for a favorable opportunity to employ it, produces nothing till that opportunity arrives. But if, instead of locking it up in this manner, he either deposits it in a bank, or invests it in the stock of a bank, it yields a profit during the interval, in which he partakes, or not, according to the choice he may have made of being a depositor or a proprietor; and when any advantageous speculation offers, in order to be able to embrace it, he has only to withdraw his money, if a depositor, or, if a proprietor, to obtain a loan from the bank, or to dispose of his stock—an alternative seldom or

never attended with difficulty, when the affairs of the institution are in a prosperous train. His money, thus deposited or invested, is a fund upon which himself and others can borrow to a much larger amount. It is a well-established fact, that banks in good credit can circulate a far greater sum than the actual quantum of their capital in gold and silver. The extent of the possible excess seems indeterminate; though it has been conjecturally stated at the proportions of two and three to one. This faculty is produced in various ways. 1st. A great proportion of the notes which are issued, and pass current as cash, are indefinitely suspended in circulation, from the confidence which each holder has, that he can, at any moment, turn them into gold and silver. 2dly. Every loan which a bank makes, is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes, or in gold or silver, at his option. But, in a great number of cases, no actual payment is made in either. The borrower, frequently, by a check or order, transfers his credit to some other person, to whom he has a payment to make; who, in his turn, is as often content with a similar credit, because he is satisfied that he can, whenever he pleases, either convert it into cash, or pass it to some other hand, as an equivalent for it. And in this manner the credit keeps circulating, performing in every stage the office of money, till it is extinguished by a discount with some person who has a payment to make to the bank, to an equal or greater amount. Thus large sums are lent and paid, frequently

through a variety of hands, without the intervention of a single piece of coin. 3dly. There is always a large quantity of gold and silver in the repositories of the bank, besides its own stock, which is placed there, with a view partly to its safe-keeping, and partly to the accommodation of an institution which is itself a sort of general accommodation. These deposits are of immense consequence in the operations of a bank. Though liable to be redrawn at any moment, experience proves, that the money so much oftener changes proprietors than place, and that what is drawn out is generally so speedily replaced, as to authorize the counting upon the sums deposited, as an *effective fund*, which, concurring with the stock of the bank, enables it to extend its loans, and to answer all the demands for coin, whether in consequence of those loans, or arising from the occasional return of its notes.

These different circumstances explain the manner in which the ability of a bank to circulate a greater sum than its actual capital in coin is acquired. This, however, must be gradual, and must be preceded by a firm establishment of confidence—a confidence which may be bestowed on the most rational grounds, since the excess in question will always be bottomed on good security of one kind or another. This, every well-conducted bank carefully requires, before it will consent to advance either its money or its credit, and where there is an auxiliary capital (as will be the case in the plan hereafter submitted), which, together with the capital in coin, defines the boundary that shall not be exceeded by the engage-

ments of the bank, the security may, consistently with all the maxims of a reasonable circumspection, be regarded as complete.

The same circumstances illustrate the truth of the position, that it is one of the properties of banks to increase the active capital of a country. This, in other words, is the sum of them: the money of one individual, while he is waiting for an opportunity to employ it, by being either deposited in the bank for safe-keeping, or invested in its stock, is in a condition to administer to the wants of others, without being put out of his own reach when occasion presents. This yields an extra profit, arising from what is paid for the use of his money by others, when he could not himself make use of it, and keeps the money itself in a state of incessant activity. In the almost infinite vicissitudes and competitions of mercantile enterprise, there never can be danger of an intermission of demand, or that the money will remain for a moment idle in the vaults of the bank. This additional employment given to money, and the faculty of a bank to lend and circulate a greater sum than the amount of its stock in coin, are, to all purposes of trade and industry, an absolute increase of capital. Purchases and undertakings, in general, can be carried on by any given sum of bank paper or credit, as effectually as by an equal sum of gold and silver. And thus, by contributing to enlarge the mass of industrious and commercial enterprise, banks become nurseries of national wealth—a consequence as satisfactorily verified by experience, as it is clearly deducible in theory.

Secondly.—Greater facility as to the government in obtaining pecuniary aids, especially in sudden emergencies. This is another and an undisputed advantage of public banks—one which, as already remarked, has been realized in signal instances among ourselves. The reason is obvious: the capitals of a great number of individuals are, by this operation, collected to a point, and placed under one direction. The mass formed by this union, is, in a certain sense, magnified by the credit attached to it; and while this mass is always ready, and can at once be put in motion, in aid of the government, the interest of the bank to afford that aid, independent of regard to the public safety and welfare, is a sure pledge for its disposition to go as far in its compliances as can in prudence be desired. There is, in the nature of things, as will be more particularly noticed in another place, an intimate connection of interest between the government and the bank of a nation.

Thirdly.—The facilitating of the payment of taxes. This advantage is produced in two ways. Those who are in a situation to have access to the bank, can have the assistance of loans, to answer, with punctuality, the public calls upon them. This accommodation has been sensibly felt in the payment of the duties heretofore laid by those who reside where establishments of this nature exist. This, however, though an extensive, is not a universal, benefit. The other way, in which the effect here contemplated is produced, and in which the benefit is general, is the increasing of the quantity of circulating medium, and the quickening of circulation.

The manner in which the first happens has already been traced. The last may require some illustration. When payments are to be made between different places having an intercourse of business with each other, if there happen to be no private bills at market, and there are no bank-notes which have a currency in both, the consequence is, that coin must be remitted. This is attended with trouble, delay, expense, and risk. If, on the contrary, there are bank-notes current in both places, the transmission of these by the post, or any other speedy or convenient conveyance, answers the purpose; and these again, in the alternations of demand, are frequently returned, very soon after, to the place from which they were first sent: whence the transportation and re-transportation of the metals are obviated, and a more convenient and more expeditious medium of payment is substituted. Nor is this all; the metals, instead of being suspended from their usual functions during this process of vibration from place to place, continue in activity, and administer still to the ordinary circulation, which, of course, is prevented from suffering either diminution or stagnation. These circumstances are additional causes of what, in a practical sense, or to the purposes of business, may be called greater plenty of money. And it is evident, that whatever enhances the quantity of circulating money, adds to the ease with which every industrious member of the community may acquire that portion of it of which he stands in need, and enables him the better to pay his taxes, as well as to supply his other wants.

Even where the circulation of the bank paper is not general, it must still have the same effect, though in a less degree. For, whatever furnishes additional supplies to the channels of circulation in one quarter, naturally contributes to keep the streams fuller elsewhere. This last view of the subject serves both to illustrate the position that banks tend to facilitate the payment of taxes, and to exemplify their utility to business of every kind in which money is an agent.

It would be to intrude too much on the patience of the House, to prolong the details of the advantages of banks; especially as all those which might still be particularized are readily to be inferred as consequences from those which have been enumerated. Their disadvantages, real or supposed, are now to be reviewed. The most serious of the charges which have been brought against them are:

That they serve to increase usury;

That they tend to prevent other kinds of lending;

That they furnish temptations to overtrading;

That they afford aid to ignorant adventurers, who disturb the natural and beneficial course of trade;

That they give to bankrupt and fraudulent traders a fictitious credit, which enables them to maintain false appearances and to extend their impositions; and, lastly,

That they have a tendency to banish gold and silver from the country.

There is great reason to believe, that, on a close and candid survey, it will be discovered that these charges are either destitute of foundation, or that, as far as the evils they suggest have been found to

exist, they have proceeded from other, or partial, or temporary causes, are not inherent in the nature and permanent tendency of such institutions, or are more than counterbalanced by opposite advantages. This survey shall be had in the order in which the charges have been stated. The first of them is—

That banks serve to increase usury.

It is a truth, which ought not to be denied, that the method of conducting business, which is essential to bank operations, has, among us, in particular instances, given occasion to usurious transactions. The punctuality in payment, which they necessarily exact, has sometimes obliged those who have ventured beyond both their capital and their *credit*, to procure money at any price, and, consequently, to resort to usurers for aid.

But experience and practice gradually bring a cure to this evil. A general habit of punctuality among traders is the natural consequence of the necessity of observing it with the bank—a circumstance which itself more than compensates for any occasional ill which may have sprung from that necessity in the particular under consideration. As far, therefore, as traders depend on each other for pecuniary supplies, they can calculate their expectations with greater certainty; and are in proportionably less danger of disappointments, which might compel them to have recourse to so pernicious an expedient as that of borrowing at usury; the mischiefs of which, after a few examples, naturally inspire great care in all but men of desperate circumstances, to avoid the possibility of being subjected to them.

One, and not the least, of these evils incident to the use of that expedient, if the fact be known, or even strongly suspected, is loss of credit with the bank itself.

The directors of a bank, too, though, in order to extend its business and its popularity in the infancy of an institution, they may be tempted to go further in accommodation than the strict rules of prudence will warrant, grow more circumspect, of course, as its affairs become better established, and as evils of too great facility are experimentally demonstrated. They become more attentive to the situation and conduct of those with whom they deal; they observe more narrowly their operations and pursuits; they economize the credit they give to those of suspicious solidity; they refuse it to those whose career is more manifestly hazardous. In a word, in the course of practice, from the very nature of things, the *interest* will make it the *policy* of a bank to succor the wary and industrious, to discredit the rash and unthrifty, to discountenance both usurious lenders and usurious borrowers.

There is a leading view, in which the tendency of banks will be seen to be to abridge, rather than to promote, usury. This relates to their property of increasing the quantity and quickening the circulation of money. If it be evident, that usury will prevail or diminish according to the proportion which the demand for borrowing bears to the quantity of money at market to be lent, whatever has the property just mentioned, whether it be in the shape of paper or coin, by contributing to render the sup-

ply more equal to the demand, must tend to counteract the progress of usury.

But bank-lending, it is pretended, is an impediment to other kinds of lending; which, by confining the resource of borrowing to a particular class, leaves the rest of the community more destitute, and, therefore, more exposed to the extortions of usurers. As the profits of bank stock exceed the legal rate of interest, the possessors of money, it is urged, prefer investing it in that article to lending it at this rate; to which there are the additional motives of a more prompt command of the capital, and of more frequent and exact returns, without trouble or perplexity in the collection. This constitutes the second charge which has been enumerated.

The fact on which this charge rests is not to be admitted without several qualifications—particularly in reference to the state of things in this country.

First. The great bulk of the stock of a bank will consist of the funds of men in trade, among ourselves, and moneyed foreigners; the former of whom could not spare their capitals out of their reach, to be invested in loans for long periods, on mortgages or personal security; and the latter of whom would not be willing to be subjected to the casualties, delays, and embarrassments of such a disposition of their money in a distant country.

Secondly. There will always be a considerable proportion of those who are properly the money-lenders of a country, who, from that spirit of caution which usually characterizes this description of men, will incline rather to invest their funds in mortgages on

real estate, than in the stock of a bank, which they are apt to consider as a more precarious security.

These considerations serve, in a material degree, to narrow the foundation of the objection, as to the point of fact. But there is a more satisfactory answer to it. The effect supposed, as far as it has existence, is temporary. The reverse of it takes place in the general and permanent operation of the thing.

The capital of every public bank will, of course, be restricted within a certain defined limit. It is the province of legislative prudence so to adjust this limit, that, while it will not be too contracted for the demand which the course of business may create, and for the security which the public ought to have for the solidity of the paper which may be issued by the bank, it will still be within the compass of the pecuniary resources of the community; so that there may be an easy practicability of completing the subscriptions to it. When this is once done, the supposed effect, of necessity, ceases. There is then no longer room for the investment of any additional capital. Stock may, indeed, change hands, by one person selling and another buying; but the money which the buyer takes out of the common mass to purchase the stock, the seller receives and restores to it. Hence, the future surpluses which may accumulate must take their natural course, and lending at interest must go on as if there were no such institution.

It must, indeed, flow in a more copious stream. The bank furnishes an extraordinary supply for

borrowers, within its immediate sphere. A larger supply consequently remains for borrowers elsewhere. In proportion as the circulation of the bank is extended, there is an augmentation of the aggregate mass of money for answering the aggregate mass of demand. Hence greater facility in obtaining it for every purpose.

It ought not to escape without a remark, that, as far as the citizens of other countries become adventurers in the bank, there is a positive increase of the gold and silver of the country. It is true, that, from this, a half yearly rent is drawn back, accruing from the dividends upon the stock. But as this rent arises from the employment of the capital by our own citizens, it is probable that it is more than replaced by the profits of that employment. It is also likely that a part of it is, in the course of trade, converted into the products of our country; and it may even prove an incentive, in some cases, to emigration to a country in which the character of citizen is as easy to be acquired as it is estimable and important. This view of the subject furnishes an answer to an objection which has been deduced from the circumstance here taken notice of, namely, the income resulting to foreigners from the part of the stock owned by them, which has been represented as tending to drain the country of its specie. In this objection the original investment of the capital, and the constant use of it afterwards, seem both to have been overlooked.

That banks furnish temptations to overtrading, is the third of the enumerated objections. This must

mean, that, by affording additional aids to mercantile enterprise, they induce the merchant sometimes to adventure beyond the prudent or salutary point. But the very statement of the thing shows that the subject of the charge is an occasional ill, incident to a general good. Credit of every kind (as a species of which only can bank-lending have the effect supposed) must be, in different degrees, chargeable with the same inconvenience. It is even applicable to gold and silver, when they abound in circulation. But would it be wise, on this account, to decry the precious metals, to root out credit, or to proscribe the means of that enterprise which is the main-spring of trade, and a principal source of national wealth, because it now and then runs into excesses, of which overtrading is one?

If the abuses of a beneficial thing are to determine its condemnation, there is scarcely a source of public prosperity which will not speedily be closed. In every case, the evil is to be compared with the good; and in the present case such a comparison will issue in this, that the new and increased energies derived to commercial enterprise, from the aid of banks, are a source of general profit and advantage, which greatly outweigh the partial ills—the overtrading of a few individuals, at particular times, or of numbers in particular conjunctures.

The fourth and fifth charges may be considered together. These relate to the aid which is sometimes afforded by banks to unskilful adventurers and fraudulent traders. These charges, also, have some degree of foundation, though far less than has been

pretended; and they add to the instances of partial ills, connected with more extensive and overbalancing benefits.

The practice of giving fictitious credit to improper persons is one of those evils which experience, guided by interest, speedily corrects. The bank itself is in so much jeopardy of being a sufferer by it, that it has the strongest of all inducements to be on its guard. It may not only be injured immediately by the delinquencies of the persons to whom such credit is given, but eventually by the incapacities of others, whom their impositions or failures may have ruined.

Nor is there much danger of a bank's being betrayed into this error from want of information. The directors themselves being, for the most part, selected from the class of traders, are to be expected to possess, individually, an accurate knowledge of the characters and situations of those who come within that description. And they have, in addition to this, the course of dealing of the persons themselves with the bank to assist their judgment, which is, in most cases, a good index of the state in which those persons are. The artifices and shifts which those in desperate or declining circumstances are obliged to employ, to keep up the countenance which the rules of the bank require, and the train of their connections, are so many prognostics, not difficult to be interpreted, of the fate which awaits them. Hence, it not unfrequently happens, that banks are the first to discover the unsoundness of such characters, and, by withholding credit, to announce to the public that they are not entitled to it.

If banks, in spite of every precaution, are sometimes betrayed into giving a false credit to the persons described, they more frequently enable honest and industrious men, of small, or, perhaps, of no capital, to undertake and prosecute business with advantage to themselves and to the community; and assist merchants, of both capital and credit, who meet with fortuitous and unforeseen shocks, which might, without such helps, prove fatal to them and to others, to make head against their misfortunes, and finally to retrieve their affairs—circumstances which form no inconsiderable encomium on the utility of banks.

But the last and heaviest charge is still to be examined: this is, that banks tend to banish the gold and silver of the country.

The force of this objection rests upon their being an engine of paper credit, which, by furnishing a substitute for the metals, is supposed to promote their exportation. It is an objection which, if it has any foundation, lies not against banks peculiarly, but against every species of paper credit.

The most common answer given to it is, that the thing supposed is of little or of no consequence; that it is immaterial what serves the purpose of money, whether paper, or gold and silver; that the effect of both upon industry is the same; and that the intrinsic wealth of a nation is to be measured, not by the abundance of the precious metals contained in it, but by the quantity of the productions of its labor and industry.

This answer is not destitute of solidity, though

not entirely satisfactory. It is certain that the vivification of industry, by a full circulation, with the aid of a proper and well-regulated paper credit, may more than compensate for the loss of a part of the gold and silver of a nation, if the consequence of avoiding that loss should be a scanty or defective circulation.

But the positive and permanent increase or decrease of the precious metals in the country can hardly ever be a matter of indifference. As the commodity taken in lieu of every other, it is a species of the most effective wealth; and as the money of the world, it is of great concern to the state, that it possess a sufficiency of it to face any demands which the protection of its external interest may create.

The objection seems to admit of another and a more conclusive answer, which controverts the fact itself. A nation that has no mines of its own must derive the precious metals from others; generally speaking, in exchange for the products of its labor and industry. The quantity it will possess will, therefore, in the ordinary course of things, be regulated by the favorable or unfavorable balance of its trade; that is, by the proportion between its abilities to supply foreigners, and its wants of them—between the amount of its exportations and that of its importations. Hence, the state of its agriculture and manufactures, the quantity and quality of its labor and industry, must, in the main, influence and determine the increase or decrease of its gold and silver.

If this be true, the inference seems to be, that well-constituted banks favor the increase of the

precious metals. It has been shown that they augment, in different ways, the active capital of a country. This it is which generates employment—which animates and expands labor and industry. Every addition which is made to it, by contributing to put in motion a greater quantity of both, tends to create a greater quantity of the products of both; and, by furnishing more materials for exportation, conduces to a favorable balance of trade, and, consequently, to the introduction and increase of gold and silver.

This conclusion appears to be drawn from solid premises. There are, however, objections to be made to it.

It may be said that, as bank paper affords a substitute for specie, it serves to counteract that rigorous necessity for the metals, as a medium of circulation, which, in the case of a wrong balance, might restrain, in some degree, their exportation; and it may be added that, from the same cause, in the same case, it would retard those economical and parsimonious reforms in the manner of living which the scarcity of money is calculated to produce, and which might be necessary to rectify such wrong balance.

There is, perhaps, some truth in both these observations; but they appear to be of a nature rather to form exceptions to the generality of the conclusion, than to overthrow it. The state of things in which the *absolute exigencies* of circulation can be supposed to resist, with any effect, the urgent demands for specie which a wrong balance of trade may occasion,

presents an *extreme case*. And a situation in which a too expensive manner of living of a community, compared with its means, can stand in need of a corrective, from distress or necessity, is one which, perhaps, rarely results but from extraordinary and adventitious causes—such, for example, as a national revolution; which unsettles all the established habits of the people, and inflames the appetite for extravagance, by the illusions of an ideal wealth, engendered by the continual multiplication of a depreciating currency, or some similar cause. There is a good reason to believe that, where the laws are wise and well executed, and the inviolability of property and contracts maintained, the economy of a people will, in the general course of things, correspond with its means.

The support of industry is, probably in every case, of more consequence towards correcting a wrong balance of trade, than any practicable retrenchments in the expenses of families or individuals; and the stagnation of it would be likely to have more effect in prolonging, than any such savings in shortening, its continuance. That stagnation is a natural consequence of an inadequate medium, which, without the aid of bank circulation, would, in the cases supposed, be severely felt.

It also deserves notice that, as the circulation is always in a compound ratio to the fund upon which it depends, and to the demand for it, and as that fund is itself affected by the exportation of the metals, there is no danger of its being overstocked, as in the case of paper issued at the pleasure of the govern-

ment, or of its preventing the consequences of any unfavorable balance from being sufficiently felt to produce the reforms alluded to, as far as circumstances may require and admit.

Nothing can be more fallible than the comparisons which have been made between different countries, to illustrate the truth of the position under consideration. The comparative quantity of gold and silver in different countries depends upon an infinite variety of facts and combinations, all of which ought to be known in order to judge whether the existence or non-existence of paper currencies has any share in the relative proportions they contain. The *mass* and *value* of the productions of the labor and industry of each, compared with its wants; the nature of its establishments abroad; the kind of wars in which it is usually engaged; the relations it bears to the countries which are the original possessors of those metals; the privileges it enjoys in their trade;—these, and a number of other circumstances, are all to be taken into the account, and render the investigation too complex to justify any reliance on the vague and general surmises which have hitherto been hazarded on the point.

In the foregoing discussion, the objection has been considered as applying to the permanent expulsion and diminution of the metals. Their temporary exportation, for particular purposes, has not been contemplated. This, it must be confessed, is facilitated by banks, from the faculty they possess of supplying their place. But their utility is in nothing more conspicuous than in these very cases. They enable

the government to pay its foreign debts, and to answer any exigencies which the external concerns of the community may have produced. They enable the merchant to support his credit (on which the prosperity of trade depends), when special circumstances prevent remittances in other modes. They enable him also to prosecute enterprises which ultimately tend to an augmentation of the species of wealth in question. It is evident that gold and silver may often be employed in procuring commodities abroad, which, in a circuitous commerce, replace the original fund, with considerable addition. But it is not to be inferred, from this facility given to temporary exportation, that banks, which are so friendly to trade and industry, are, in their general tendency, inimical to the increase of the precious metals.

These several views of the subject appear sufficient to impress a full conviction of the utility of banks, and to demonstrate that they are of great importance, not only in relation to the administration of the finances but in the general system of the political economy.

The judgment of many concerning them has, no doubt, been perplexed by the misinterpretation of appearances which were to be ascribed to other causes. The general devastation of personal property, occasioned by the late war, naturally produced, on the one hand, a great demand for money, and, on the other, a great deficiency of it to answer the demand. Some injudicious laws, which grew out of the public distresses, by impairing confidence, and

causing a part of the inadequate sum in the country to be locked up, aggravated the evil. The dissipated habits contracted by many individuals during the war, which, after the peace, plunged them into expenses beyond their incomes; the number of adventurers without capital, and, in many instances, without information, who at that epoch rushed into trade, and were obliged to make any sacrifice to support a transient credit; the employment of considerable sums in speculations upon the public debt, which, from its unsettled state, was incapable of becoming itself a substitute; all these circumstances concurring, necessarily led to usurious borrowing, produced most of the inconveniences, and were the true causes of most of the appearances which, where banks were established, have been by some erroneously placed to their account—a mistake which they might easily have avoided by turning their eyes toward places where there were none, and where, nevertheless, the same evils would have been perceived to exist, even in a greater degree than where those institutions had obtained.

These evils have either ceased or been greatly mitigated. Their more complete extinction may be looked for from that additional security to property which the Constitution of the United States happily gives (a circumstance of prodigious moment in the scale both of public and private prosperity); from the attraction of foreign capital, under the auspices of that security, to be employed upon objects and in enterprises for which the state of this country opens a wide and inviting field; from the consistency and

stability which the public debt is fast acquiring, as well in the public opinion at home and abroad, as in fact; from the augmentation of capital which that circumstance and the quarter-yearly payment of interest will afford; and from the more copious circulation which will be likely to be created by a well-constituted national bank.

The establishment of banks in this country seems to be recommended by reasons of a peculiar nature. Previously to the Revolution, circulation was in a great measure carried on by paper emitted by the several local governments. In Pennsylvania alone the quantity of it was near a million and a half of dollars. This auxiliary may be said to be now at an end. And it is generally supposed that there has been, for some time past, a deficiency of circulating medium. How far that deficiency is to be considered as real or imaginary, is not susceptible of demonstration; but there are circumstances and appearances which, in relation to the country at large, countenance the supposition of its reality.

The circumstances are, besides the fact just mentioned respecting paper emissions, the vast tracts of waste land, and the little advanced state of manufactures. The progressive settlement of the former, while it promises ample retribution in the generation of future resources, diminishes or obstructs, in the meantime, the *active* wealth of the country. It not only draws off a part of the circulating money, and places it in a more passive state, but it diverts into its own channels a portion of that species of labor and industry which would otherwise be employed in

furnishing materials for foreign trade, and which, by contributing to a favorable balance, would assist the introduction of specie. In the early periods of new settlements, the settlers not only furnish no surplus for exportation, but they consume a part of that which is produced by the labor of others. The same thing is a cause that manufactures do not advance, or advance slowly. And notwithstanding some hypotheses to the contrary, there are many things to induce a suspicion that the precious metals will not abound in any country which has not mines, or variety of manufactures. They have been sometimes acquired by the sword; but the modern system of war has expelled this resource, and it is one upon which it is to be hoped the United States will never be inclined to rely.

The appearances alluded to are: Greater prevalence of direct barter, in the more interior districts of the country, which, however, has been for some time past gradually lessening; and greater difficulty generally in the advantageous alienation of improved real estate, which also has of late diminished, but is still seriously felt in different parts of the Union. The difficulty of getting money, which has been a general complaint, is not added to the number, because it is the complaint of all times, and one in which imagination must ever have too great scope to permit an appeal to it.

If the supposition of such a deficiency be in any degree well founded, and some aid to circulation be desirable, it remains to inquire what ought to be the nature of that aid.

The emitting of paper money by the authority of the government is wisely prohibited to the individual States by the National Constitution; and the spirit of that prohibition ought not to be disregarded by the Government of the United States. Though paper emissions, under a general authority, might have some advantages not applicable, and be free from some disadvantages which are applicable, to the like emissions by the States, separately, yet they are of a nature so liable to abuse—and, it may even be affirmed, so certain of being abused,—that the wisdom of the government will be shown in never trusting itself with the use of so seducing and dangerous an expedient. In times of tranquillity it might have no ill consequence,—it might even perhaps be managed in a way to be productive of good; but in great and trying emergencies there is almost a moral certainty of its becoming mischievous. The stamping of paper is an operation so much easier than the laying of taxes, that a government in the practice of paper emissions would rarely fail, in any such emergency, to indulge itself too far in the employment of that resource, to avoid, as much as possible, one less auspicious to present popularity. If it should not even be carried so far as to be rendered an absolute bubble, it would at least be likely to be extended to a degree which would occasion an inflated and artificial state of things, incompatible with the regular and prosperous course of the political economy.

Among other material differences between a paper currency, issued by the mere authority of govern-

ment, and one issued by a bank, payable in coin, is this: That, in the first case, there is no standard to which an appeal can be made, as to the quantity which will only satisfy, or which will surcharge, the circulation; in the last, that standard results from the demand. If more should be issued than is necessary, it will return upon the bank. Its emissions, as elsewhere intimated, must always be in a compound ratio to the fund and the demand: whence it is evident that there is a limitation in the nature of the thing; while the discretion of the government is the only measure of the extent of the emissions, by its own authority.

This consideration further illustrates the danger of emissions of that sort, and the preference which is due to bank paper.

The payment of the interest of the public debt at thirteen different places is a weighty reason, peculiar to our immediate situation, for desiring a bank circulation. Without a paper, in general currency, equivalent to gold and silver, a considerable proportion of the specie of the country must always be suspended from circulation, and left to accumulate, preparatory to each day of payment; and as often as one approaches, there must in several cases be an actual transportation of the metals, at both expense and risk, from their natural and proper reservoirs, to distant places. This necessity will be felt very injuriously to the trade of some of the States, and will embarrass not a little the operations of the treasury in those States. It will also obstruct those negotiations, between different parts of the Union, by

the instrumentality of treasury bills, which have already afforded valuable accommodations to trade in general.

Assuming it, then, as a consequence, from what has been said, that a national bank is a desirable institution, two inquiries emerge: Is there no such institution already in being, which has a claim to that character, and which supersedes the propriety or necessity of another? If there be none, what are the principles upon which one ought to be established?

There are at present three banks in the United States: that of North America, established in the city of Philadelphia; that of New York, established in the city of New York; that of Massachusetts, established in the town of Boston. Of these three, the first is the only one which has at any time had a direct relation to the Government of the United States.

The Bank of North America originated in a resolution of Congress of the 26th of May, 1781, founded upon a proposition of the Superintendent of Finance, which was afterwards carried into execution by an ordinance of the 31st of December following, entitled "An ordinance to incorporate the subscribers to the Bank of North America."

The aid afforded to the United States by this institution, during the remaining period of the war, was of essential consequence; and its conduct towards them since the peace has not weakened its title to their patronage and favor. So far its pretensions to the character in question are respectable, but there are circumstances which militate against them, and

considerations which indicate the propriety of an establishment on different principles.

The directors of this bank, on behalf of their constituents, have since *accepted*, and *acted* under, a new charter, from the State of Pennsylvania, materially variant from their original one, and which so narrows the foundation of the institution as to render it an incompetent basis for the extensive purposes of a national bank.

The limit assigned by the ordinance of Congress to the stock of the bank is ten millions of dollars. The last charter of Pennsylvania confines it to two millions. Questions naturally arise whether there be not a direct repugnancy between two charters so differently circumstanced; and whether the acceptance of the one is not to be deemed a virtual surrender of the other. But perhaps it is neither advisable nor necessary to attempt a solution of them.

There is nothing in the acts of Congress which imply an exclusive right in the institution to which they relate, except during the term of the war. There is, therefore, nothing, if the public good require it, which prevents the establishment of another. It may, however, be incidentally remarked, that in the general opinion of the citizens of the United States, the Bank of North America has taken the station of a bank of Pennsylvania only. This is a strong argument for a new institution, or for a renovation of the old, to restore it to the situation in which it originally stood in the view of the United States.

But, though the ordinance of Congress contains

no grant of exclusive privileges, there may be room to allege that the Government of the United States ought not, in point of candor and equity, to establish any rival or interfering institution, in prejudice of the one already established, especially as this has, from services rendered, well-founded claims to protection and regard.

The justice of such an observation ought, within proper bounds, to be admitted. A new establishment of the sort ought not to be made without cogent and sincere reasons of public good. And, in the manner of doing it, every facility should be given to a consolidation of the old with the new, upon terms not injurious to the parties concerned. But there is no ground to maintain that, in a case in which the government has made no condition restricting its authority, it ought voluntarily to restrict it, through regard to the interests of a particular institution, when those of the State dictate a different course, especially, too, after such circumstances have intervened as characterize the actual situation of the Bank of North America.

The inducements to a new disposition of the thing are now to be considered. The first of them which occurs is, the, at least, ambiguous situation in which the Bank of North America has placed itself by the acceptance of its last charter. If this has rendered it the mere bank of a particular State, liable to dissolution at the expiration of fourteen years, to which term the act of that State has restricted its duration, it would be neither fit nor expedient to accept it as an equivalent for a bank of the United States.

The restriction of its capital, also, which, according to the same supposition cannot be extended beyond two millions of dollars, is a conclusive reason for a different establishment. So small a capital promises neither the requisite aid to government nor the requisite security to the community. It may answer very well the purposes of local accommodation, but it is an inadequate foundation for a circulation coextensive with the United States, embracing the whole of their revenues, and affecting every individual into whose hands the paper may come.

And, inadequate as such a capital would be to the essential ends of a national bank, it is liable to being rendered still more so by that principle of the constitution of the Bank of North America, contained equally in its old and in its new charter, which leaves the increase of the *actual* capital at any time (now far short of the allowed extent) to the discretion of the directors or stockholders. It is naturally to be expected that the allurements of an advanced price of stock, and of large dividends, may disincline those who are interested to an extension of capital, from which they will be apt to fear a diminution of profits. And for this circumstance the interest and accommodation of the public (as well individually as collectively) are made more subordinate to the interest, real or imagined, of the stockholders, than they ought to be. It is true that, unless the latter be consulted, there can be no bank (in the sense at least in which institutions of this kind, worthy of confidence, can be established

in this country). But, it does not follow that this alone is to be consulted, or that it even ought to be paramount. Public utility is more truly the object of public banks than private profit. And it is the business of government to constitute them on such principles that, while the latter will result in a sufficient degree to afford competent motives to engage in them, the former be not made subservient to it. To effect this, a principal object of attention ought to be to give free scope to the creation of an ample capital, and with this view, fixing the bounds which are deemed safe and convenient, to leave no discretion either to stop short of them, or to overpass them. The want of this precaution in the establishment of the Bank of North America is a further and an important reason for desiring one differently constituted.

There may be room at first sight for a supposition that, as the profits of a bank will bear a proportion to the extent of its operations, and as for this reason the interest of the stockholders will not be disadvantageously affected by any necessary augmentations of capital, there is no cause to apprehend that they will be indisposed to such augmentations. But most men, in matters of this nature, prefer the certainties they enjoy, to probabilities depending on untried experiments, especially when these promise rather that they will not be injured, than that they will be benefited.

From the influence of this principle, and a desire of enhancing its profits, the directors of a bank will be more apt to overstrain its faculties, in an attempt

to face the additional demands which the course of business may create, than to set on foot new subscriptions, which may hazard a diminution of the profits, and even a temporary reduction of the price of stock.

Banks are among the best expedients for lowering the rate of interest in a country; but, to have this effect, their capitals must be completely equal to all the demands of business, and such as will tend to remove the idea that the accommodations they afford are in any degree favors—an idea very apt to accompany the parsimonious dispensation of contracted funds. In this, as in every other case, the plenty of the commodity ought to beget a moderation of price.

The want of a principle of rotation in the constitution of the Bank of North America is another argument for a variation of the establishment. Scarcely one of the reasons which militate against this principle in the constitution of a country, is applicable to that of a bank; while there are strong reasons in favor of it, in relation to the one, which do not apply to the other. The knowledge to be derived from experience is the only circumstance common to both, which pleads against rotation in the directing officers of a bank.

But the objects of the government of a nation, and those of the government of a bank, are so widely different, as greatly to weaken the force of that consideration in reference to the latter. Almost every important case in legislation requires, toward a right decision, a general and accurate acquaintance

with the affairs of the State, and habits of thinking seldom acquired but from a familiarity with public concerns. The administration of a bank, on the contrary, is regulated by a few simple fixed maxims, the application of which is not difficult to any man of judgment, especially if instructed in the principles of trade. It is, in general, a constant succession of the same details.

But, though this be the case, the idea of the advantages of experience is not to be slighted. Room ought to be left for the regular transmission of official information; and for this purpose, the head of the direction ought to be excepted from the principle of rotation. With this exception, and with the aid of the information of the subordinate officers, there can be no danger of any ill effects from want of experience or knowledge; especially as the periodical exclusion ought not to reach the whole of the directors at one time.

The argument in favor of the principle of rotation is this: that by lessening the danger of combinations among the directors, to make the institution subservient to party views, or to the accommodation, preferably, of any particular set of men, it will render the public confidence more firm, stable, and unqualified.

When it is considered that the directors of a bank are not elected by the great body of the community, in which a diversity of views will naturally prevail at different conjunctures, but by a small and select class of men, among whom it is far more easy to cultivate a steady adherence to the same persons

and objects, and that those directors have it in their power so immediately to conciliate, by obliging the most influential of this class, it is easy to perceive that, without the principle of rotation, changes in that body can rarely happen, but as a concession which they may themselves think it expedient to make to public opinion.

The continual administration of an institution of this kind, by the same persons, will never fail, with or without cause, from their conduct, to excite distrust and discontent. The necessary secrecy of their transactions gives unlimited scope to imagination to infer that something is or may be wrong. And this *inevitable* mystery is a solid reason for inserting in the constitution of a bank the necessity of a change of men. As neither the mass of the parties interested, nor the public in general, can be permitted to be witnesses of the interior management of the directors, it is reasonable that both should have that check upon their conduct, and that security against the prevalency of a partial or pernicious system, which will be produced by the certainty of periodical changes. Such, too, is the delicacy of the credit of a bank, that every thing which can fortify confidence and repel suspicion, without injuring its operations, ought carefully to be sought after in its formation.

A further consideration in favor of a change is the improper rule by which the right of voting for directors is regulated in the plan upon which the Bank of North America was originally constituted—namely, a vote for each share; and the want of a

rule in the last charter,—unless the silence of it, on that point, may signify that every stockholder is to have an equal and a single vote, which would be a rule in a different extreme, not less erroneous. It is of importance that a rule should be established on this head, as it is one of those things which ought not to be left to discretion; and it is, consequently, of equal importance that the rule should be a proper one.

A vote for each share renders a combination between a few principal stockholders, to monopolize the power and benefits of the bank, too easy. An equal vote to each stockholder, however great or small his interest in the institution, allows not that degree of weight to large stockholders which it is reasonable they should have, and which, perhaps, their security and that of the bank require. A prudent mean is to be preferred. A conviction of this has produced a by-law of the corporation of the Bank of North America, which evidently aims at such a mean. But a reflection arises here, that a like majority with that which enacted this law may, at any moment, repeal it.

The last inducement which shall be mentioned is the want of precautions to guard against a foreign influence insinuating itself into the direction of the bank. It seems scarcely reconcilable with due caution to permit that any but citizens should be eligible as directors of a national bank, or that non-resident foreigners should be able to influence the appointment of directors by the votes of their proxies. In the event, however, of an incorporation

of the Bank of North America in the plan, it may be necessary to qualify this principle, so as to leave the right of foreigners, who now hold shares of its stock, unimpaired; but without the power of transmitting the privilege in question to foreign alliances.

It is to be considered that such a bank is not a mere matter of private property, but a political machine of the greatest importance to the State.

There are other variations from the constitution of the Bank of North America not of inconsiderable moment, which appear desirable, but which are not of magnitude enough to claim a preliminary discussion. These will be seen in the plan which will be submitted in the sequel.

If the objections which have been stated to the constitution of the Bank of North America are admitted to be well-founded, they will, nevertheless, not derogate from the merit of the main design, or of the services which that bank has rendered, or of the benefits which it has produced. The creation of such an institution, at the time it took place, was a measure dictated by wisdom. Its utility has been amply evinced by its fruits; American independence owes much to it. And it is very conceivable that reasons of the moment may have rendered those features in it inexpedient, which a revision, with a permanent view, suggests as desirable.

The order of the subject leads next to an inquiry into the principles upon which a national bank ought to be organized.

The situation of the United States naturally inspires a wish that the form of the institution could

admit of a plurality of branches. But various considerations discourage from pursuing this idea. The complexity of such a plan would be apt to inspire doubts, which might deter from adventuring in it. And the practicability of a safe and orderly administration, though not to be abandoned as desperate, cannot be made so manifest in perspective as to promise the removal of those doubts, or to justify the government in adopting the idea as an original experiment. The most that would seem advisable, on this point, is to insert a provision which may lead to it hereafter, if experience shall more clearly demonstrate its utility, and satisfy those who may have the direction, that it may be adopted with safety. It is certain that it would have some advantages, both peculiar and important. Besides more general accommodation, it would lessen the danger of a run upon the bank.

The argument against it is, that each branch must be under a distinct, though subordinate direction, to which a considerable latitude of discretion must, of necessity, be intrusted. And, as the property of the whole institution would be liable for the engagements of each part, that and its credit would be at stake, upon the prudence of the directors of every part. The mismanagement of either branch might hazard serious disorder in the whole.

Another wish, dictated by the particular situation of the country, is, that the bank could be so constituted as to be made an immediate instrument of loans to the proprietors of land; but this wish also yields to the difficulty of accomplishing it. Land is,

alone, an unfit fund for a bank circulation. If the notes issued upon it were not to be payable in coin, on demand, or at a short date, this would amount to nothing more than a repetition of the paper emissions, which are now exploded by the general voice. If the notes are to be payable in coin, the land must first be converted into it by sale, or mortgage. The difficulty of effecting the latter, is the very thing which begets the desire of finding another resource; and the former would not be practicable on a sudden emergency, but with sacrifices which would make the cure worse than the disease. Neither is the idea of constituting the fund partly of coin and partly of land, free from impediments. These two species of property do not, for the most part, unite in the same hands. Will the moneyed man consent to enter into a partnership with the landholder, by which *the latter* will share in the profits *which will be made by the money of the former?* The money, it is evident, will be the agent or efficient cause of the profits—the land can only be regarded as an additional security. It is not difficult to foresee, that a union, on such terms, will not readily be formed. If the landholders are to procure the money by sale or mortgage of a part of their lands, this they can as well do when the stock consists wholly of money, as if it were to be compounded of money and land.

To procure for the landholders the assistance of loans, is the great desideratum. Supposing other difficulties surmounted, and a fund created, composed partly of coin and partly of land, yet the benefit contemplated could only then be obtained

by the bank's advancing them its notes for the whole, or part, of the value of the lands they had subscribed to the stock. If this advance was small, the relief aimed at would not be given; if it was large, the quantity of notes issued would be a cause of *distrust*; and, if received at all, they would be likely to return speedily upon the bank for payment; which, after exhausting its coin, might be under a necessity of turning its lands into money, at any price that could be obtained for them, to the irreparable prejudice of the proprietors.

Considerations of public advantage suggest a further wish, which is—that the bank could be established upon principles that would cause the profits of it to redound to the immediate benefit of the State. This is contemplated by many who speak of a national bank, but the idea seems liable to insuperable objections. To attach full confidence to an institution of this nature, it appears to be an essential ingredient in its structure, that it shall be under a *private* not a *public* direction—under the guidance of *individual interest*, not of *public policy*; which would be supposed to be, and, in certain emergencies, under a feeble or too sanguine administration, would really be, liable to being too much influenced by *public necessity*. The suspicion of this would, most probably, be a canker that would continually corrode the vitals of the credit of the bank, and would be most likely to prove fatal in those situations in which the public good would require that they should be most sound and vigorous. It would, indeed, be little less than a miracle, should

the credit of the bank be at the disposal of the government, if, in a long series of time, there was not experienced a calamitous abuse of it. It is true, that it would be the real interest of the government not to abuse it; its genuine policy to husband and cherish it with the most guarded circumspection, as an inestimable treasure. But what government ever uniformly consulted its true interests in opposition to the temptations of momentary exigencies? What nation was ever blessed with a constant succession of upright and wise administrators?

The keen, steady, and, as it were, magnetic sense of their own interest as proprietors, in the directors of a bank, pointing invariably to its true pole—the prosperity of the institution,—is the only security that can always be relied upon for a careful and prudent administration. It is, therefore, the only basis on which an enlightened, unqualified, and permanent confidence can be expected to be erected and maintained.

The precedents of the banks established in several cities of Europe, Amsterdam, Hamburg, and others, may seem to militate against this position. Without a precise knowledge of all the peculiarities of their respective constitutions, it is difficult to pronounce how far this may be the case. That of Amsterdam, however, which we best know, is rather under a municipal than a governmental direction. Particular magistrates of the city, not officers of the republic, have the management of it. It is also a bank of deposit, not of loan, or circulation; consequently, less liable to abuse, as well as less useful.

Its general business consists in receiving money for safe-keeping, which, if not called for within a certain time, becomes a part of its stock, and irreclaimable. But a credit is given for it on the books of the bank, which, being transferable, answers all the purposes of money.

The directors being magistrates of the city, and the stockholders in general its most influential citizens, it is evident that the principle of private interest must be prevalent in the management of the bank. And it is equally evident that, from the nature of its operations, that principle is less essential to it than to an institution constituted with a view to the accommodation of the public and individuals, by direct loans and a paper circulation.

As far as may concern the aid of the bank, within the proper limits, a good government has nothing more to wish for than it will always possess, though the management be in the hands of private individuals. As the institution, if rightly constituted, must depend for its renovation, from time to time, on the pleasure of the government, it will not be likely to feel a disposition to render itself, by its conduct, unworthy of public patronage. The government, too, in the administration of its finances, has it in its power to reciprocate benefits to the bank, of not less importance than those which the bank affords to the government, and which, besides, are never unattended with an immediate and adequate compensation. Independent of these more particular considerations, the natural weight and influence of a government will always go far towards procuring

a compliance with its desires; and, as the directors will usually be composed of some of the most discreet, respectable, and well-informed citizens, it can hardly ever be difficult to make them sensible of the force of the inducements which ought to stimulate their exertions.

It will not follow, from what has been said, that the state may not be a holder of a part of the stock of a bank, and consequently a sharer in the profits of it. It will only follow that it ought not to desire any participation in the direction of it, and, therefore, ought not to own the whole or a principal part of the stock; for, if the mass of the property should belong to the public, and if the direction of it should be in private hands, this would be to commit the interests of the state to persons not interested, or not enough interested, in their proper management.

There is one thing, however, which the government owes to itself and the community—at least, to all that part of it who are not stockholders—which is, to reserve to itself a right of ascertaining, as often as may be necessary, the state of the bank; excluding, however, all pretension to control. This right forms an article in the primitive constitution of the Bank of North America; and its propriety stands upon the clearest reasons. If the paper of a bank is to be permitted to insinuate itself into all the revenues and receipts of a country, if it is even to be tolerated as the substitute for gold and silver in all the transactions of business, it becomes, in either view, a national concern of the first magnitude. As such, the ordinary rules of prudence require that

the government should possess the means of ascertaining, whenever it thinks fit, that so delicate a trust is executed with fidelity and care. A right of this nature is not only desirable, as it respects the government, but it ought to be equally so to all those concerned in the institution, as an additional title to public and private confidence, and as a thing which can only be formidable to practices that imply mismanagement. The presumption must always be, that the characters who would be intrusted with the exercise of this right, on behalf of the government, will not be deficient in the discretion which it may require; at least, the admitting this presumption cannot be deemed too great a return of confidence for that very large portion of it which the government is required to place in the bank.

Abandoning, therefore, ideas which, however agreeable or desirable, are neither practicable nor safe, the following plan, for the constitution of a national bank, is respectfully submitted to the consideration of the House.

1. The capital stock of the bank shall not exceed ten millions of dollars, divided into twenty-five thousand shares, each share being four hundred dollars; to raise which sum, subscriptions shall be opened on the first Monday of April next, and shall continue open until the whole shall be subscribed. Bodies politic as well as individuals may subscribe.

2. The amount of each share shall be payable, one fourth in gold and silver coin, and three fourths in that part of the public debt which, according to the loan proposed by the act making provision for

the debt of the United States, shall bear an accruing interest, at the time of payment, of six per centum per annum.

3. The respective sums subscribed shall be payable in four equal parts, as well specie as debt, in succession, and at the distance of six calendar months from each other; the first payment to be made at the time of subscription. If there shall be a failure in any subsequent payment, the party failing shall lose the benefit of any dividend which may have accrued prior to the time for making such payment, and during the delay of the same.

4. The subscribers to the bank, and their successors, shall be incorporated, and shall so continue until the final redemption of that part of its stock which shall consist of the public debt.

5. The capacity of the corporation to hold real and personal estate shall be limited to fifteen millions of dollars, including the amount of its capital, or original stock. The lands and tenements which it shall be permitted to hold shall be only such as shall be requisite for the immediate accommodation of the institution, and such as shall have been bona fide mortgaged to it by way of security, or conveyed to it in satisfaction of debts previously contracted in the usual course of its dealings, or purchased at sales upon judgments which shall have been obtained for such debts.

6. The totality of the debts of the company, whether by bond, bill, or other contract (credits for deposits excepted), shall never exceed the amount of its capital stock. In case of excess, the directors,

under whose administration it shall happen, shall be liable for it in their private or separate capacities. Those who may have dissented may excuse themselves from this responsibility, by immediately giving notice of the fact, and their dissent, to the President of the United States, and to the stockholders, at a general meeting, to be called by the president of the bank, at their request.

7. The company may sell or devise its lands and tenements, or may sell the whole or any part of the public debt, whereof its stock shall consist; but shall *trade* in nothing except bills of exchange, gold and silver bullion, or in the sale of goods pledged for money lent; nor shall take more than at the rate of six per centum per annum, upon its loans or discounts.

8. No loan shall be made by the bank for the use, or on account, of the Government of the United States, or of either of them, to an amount exceeding fifty thousand dollars, or of any foreign prince or state, unless previously authorized by a law of the United States.

9. The stock of the bank shall be transferable, according to such rules as shall be instituted by the company in that behalf.

10. The affairs of the bank shall be under the management of twenty-five directors, one of whom shall be the president; and there shall be, on the first Monday of January, in each year, a choice of directors, by a plurality of suffrages of the stockholders, to serve for a year. The directors, at their first meeting after each election, shall choose one of their number as president.

11. The number of votes to which each stockholder shall be entitled shall be according to the number of shares he shall hold, in the proportions following—that is to say: For one share, and not more than two shares, one vote; for every two shares above two, and not exceeding ten, one vote; for every four shares above ten, and not exceeding thirty, one vote; for every six shares above thirty, and not exceeding sixty, one vote; for every eight shares above sixty, and not exceeding one hundred, one vote; and for every ten shares above one hundred, one vote; but no person, copartnership, or body politic shall be entitled to a greater number than thirty votes. And, after the first election, no share or shares shall confer a right of suffrage, which shall not have been holden three calendar months previous to the day of election. Stockholders actually resident within the United States, and none other, may vote in the elections by proxy.

12. Not more than three fourths of the directors in office, exclusive of the president, shall be eligible for the next succeeding year. But the director who shall be president at the time of an election, may always be re-elected.

13. None but a stockholder, being a citizen of the United States, shall be eligible as a director.

14. Any number of stockholders not less than sixty, who together shall be proprietors of two hundred shares, or upward, shall have power, at any time, to call a general meeting of the stockholders for purposes relative to the institution; giving at least six weeks' notice, in two public gazettes of the

place where the bank is kept, and specifying in such notice the object of the meeting.

15. In case of the death, resignation, absence from the United States, or removal of a director by the stockholders, his place may be filled by a new choice for the remainder of the year.

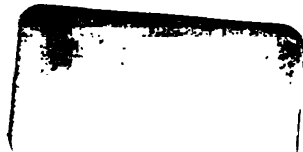
16. No director shall be entitled to any emolument, unless the same shall have been allowed by the stockholders at a general meeting. The stockholders shall make such compensation to the president, for his extraordinary attendance at the bank, as shall appear to them reasonable.

17. Not less than seven directors shall constitute a board for the transaction of business.

18. Every cashier or treasurer, before he enters on the duties of his office, shall be required to give bond, with two or more sureties, to the satisfaction of the directors, in a sum not less than twenty thousand dollars, with condition for his good behavior.

19. Half-yearly dividends shall be made of so much of the profits of the bank as shall appear to the directors advisable. And, once in every three years, the directors shall lay before the stockholders, at a general meeting, for their information, an exact and particular statement of the debts which shall have remained unpaid, after the expiration of the original credit, for a period of treble the term of that credit, and of the surplus of profit, if any, after deducting losses and dividends.

20. The bills and notes of the bank, originally made payable, or which shall have become payable,



on demand, in gold and silver coin, shall be receivable in all payments to the United States.

21. The officer at the head of the Treasury Department of the United States shall be furnished, from time to time, as often as he may require, not exceeding once a week, with statements of the amount of the capital stock of the bank, and of the debts due to the same, of the moneys deposited therein, of the notes in circulation, and of the cash in hand; and shall have a right to inspect such general accounts in the books of the bank as shall relate to the said statements; provided that this shall not be construed to imply a right of inspecting the account of any private individual or individuals with the bank.

22. No similar institution shall be established by any future act of the United States, during the continuance of the one hereby proposed to be established.

23. It shall be lawful for the directors of the bank to establish offices wheresoever they shall think fit, within the United States, for the purposes of discount and deposit only, and upon the same terms, and in the same manner, as shall be practised at the bank, and to commit the management of the said offices, and the making of the said discounts, either to agents specially appointed by them, or to such persons as may be chosen by the stockholders residing at the place where any such office shall be, under such agreements, and subject to such regulations, as they shall deem proper, not being contrary to law, or to the constitution of the bank.

24. And lastly, the President of the United States

shall be authorized to cause a subscription to be made to the stock of the said company, on behalf of the United States, to an amount not exceeding two millions of dollars, to be paid out of the moneys which shall be borrowed by virtue of either of the acts, the one entitled "An act making provision for the debt of the United States," and the other entitled "An act making provision for the reduction of the public debt"; borrowing of the bank an equal sum, to be applied to the purposes for which the said moneys shall have been procured, reimbursable in ten years, by equal annual instalments, or at any time sooner, or in any greater proportions, that the Government may think fit.

The reasons for the several provisions contained in the foregoing plan have been so far anticipated, and will, for the most part, be so readily suggested by the nature of those provisions, that any comments which need further to be made will be both few and concise.

The combination of a portion of the public debt, in the formation of the capital, is the principal thing of which an explanation is requisite. The chief object of this is to enable the creation of a capital sufficiently large to be the basis of an extensive circulation, and an adequate security for it. As has been elsewhere remarked, the original plan of the Bank of North America contemplated a capital of ten millions of dollars, which is certainly not too broad a foundation for the extensive operations to which a national bank is destined. But to collect such a sum in this country, in gold and silver, into one

depository, may, without hesitation, be pronounced impracticable. Hence the necessity of an auxiliary, which the public debt at once presents.

This part of the fund will always be ready to come in aid of the specie; it will more and more command a ready sale; and can, therefore, expeditiously be turned into coin, if an exigency of the bank should at any time require it. This quality of prompt convertibility into coin renders it an equivalent for that necessary agent of bank circulation, and distinguishes it from a fund in land, of which the sale would generally be far less compendious, and at great disadvantage. The quarter-yearly receipts of interest will also be an actual addition to the specie fund, during the intervals between them and the half-yearly dividends of profits. The objection to combining land with specie, resulting from their not being generally in possession of the same persons, does not apply to the debt, which will always be found in considerable quantity among the moneyed and trading people.

The debt composing part of the capital, besides its collateral effect in enabling the bank to extend its operations, and consequently to enlarge its profits, will produce a direct annual revenue of six per centum for the government, which will enter into the half-yearly dividends received by the stockholders.

When the present price of the public debt is considered, and the effect which its conversion into bank stock, incorporated with a specie fund, would, in all probability, have to accelerate its rise to the

proper point, it will easily be discovered, that the operation presents, in its outset, a very considerable advantage to those who may become subscribers; and from the influence which that rise would have on the general mass of the debt, a proportional benefit to all the public creditors, and, in a sense which has been more than once adverted to, to the community at large.

There is an important fact, which exemplifies the fitness of the public debt for a bank fund, and which may serve to remove doubts in some minds on this point: it is this, that the Bank of England, in its first erection, rested wholly on that foundation. The subscribers to a loan to government of one million two hundred thousand pounds sterling were incorporated as a bank, of which the debt, created by the loan and the interest upon it, were the sole fund. The subsequent augmentations of its capital, which now amounts to between eleven and twelve millions of pounds sterling, have been of the same nature.

The confining of the right of the bank to contract debts to the amount of its capital is an important precaution, which is not to be found in the constitution of the Bank of North America, and which, while the fund consists wholly of coin, would be a restriction attended with inconveniences, but would be free from any, if the composition of it should be such as is now proposed. The restriction exists in the establishment of the Bank of England, and, as a source of security, is worthy of imitation. The consequence of exceeding the limit, there, is, that each stockholder is liable for the excess, in proportion to

his interest in the bank. When it is considered that the directors owe their appointments to the choice of the stockholders, a responsibility of this kind, on the part of the latter, does not appear unreasonable; but, on the other hand, it may be deemed a hardship upon those who may have dissented from the choice. And there are many among us, whom it might perhaps discourage from becoming concerned in the institution. These reasons have induced the placing of the responsibility upon the directors by whom the limit prescribed should be transgressed.

The interdiction of loans on account of the United States, or of any particular State, beyond the moderate sum specified, or of any foreign Power, will serve as a barrier to Executive encroachments, and to combinations inauspicious to the safety, or contrary to the policy, of the Union.

The limitation of the rate of interest is dictated by the consideration, that different rates prevail in different parts of the Union; and as the operations of the bank may extend through the whole, some rule seems to be necessary. There is room for a question, whether the limitation ought not rather to be to five than to six per cent., as proposed. It may, with safety, be taken for granted, that the former rate would yield an ample dividend, perhaps as much as the latter, by the extension which it would give to business. The natural effect of low interest is to increase trade and industry; because undertakings of every kind can be prosecuted with greater advantage. This is a truth generally admitted; but it is requisite to have analyzed the subject in all its re-

lations, to be able to form a just conception of the extent of that effect. Such an analysis cannot but satisfy an intelligent mind, that the difference of one per cent. in the rate at which money may be had, is often capable of making an essential change for the better in the situation of any country or place.

Every thing, therefore, which tends to lower the rate of interest, is peculiarly worthy of the cares of legislators. And though laws, which violently sink the legal rate of interest greatly below the market level, are not to be commended, because they are not calculated to answer their aim, yet, whatever has a tendency to effect a reduction, without violence to the natural course of things, ought to be attended to and pursued. Banks are among the means most proper to accomplish this end; and the moderation of the rate at which their discounts are made is a material ingredient towards it; with which their own interest, viewed on an enlarged and permanent scale, does not appear to clash.

But, as the most obvious ideas are apt to have greater force than those which depend on complex and remote combinations, there would be danger that the persons whose funds must constitute the stock of the bank would be diffident of the sufficiency of the profits to be expected, if the rate of loans and discounts were to be placed below the points to which they have been accustomed, and might, on this account, be indisposed to embarking in the plan. There is, it is true, one reflection, which, in regard to men, actively engaged in trade, ought to be a security against this danger; it is this:

That the accommodations which they might derive in the way of their business, at a low rate, would more than indemnify them for any difference in the dividend, supposing even that some diminution of it were to be the consequence. But, upon the whole, the hazard of contrary reasoning among the mass of moneyed men is a powerful argument against the experiment. The institutions of the kind already existing add to the difficulty of making it. Mature reflection and a large capital may, of themselves, lead to the desired end.

The last thing which requires any explanatory remark is, the authority proposed to be given to the President, to subscribe the amount of two millions of dollars on account of the public. The main design of this is, to enlarge the specie fund of the bank, and to enable it to give a more early extension to its operations. Though it is proposed to borrow with one hand what is lent with the other, yet the disbursement of what is borrowed will be progressive, and bank-notes may be thrown into circulation, instead of the gold and silver. Besides, there is to be an annual reimbursement of a part of the sum borrowed, which will finally operate as an actual investment of so much specie. In addition to the inducements to this measure, which result from the general interest of the government to enlarge the sphere of the utility of the bank, there is this more particular consideration, to wit: That, as far as the dividend on the stock shall exceed the interest paid on the loan, there is a positive profit.

The Secretary begs leave to conclude with this

general observation: That, if the Bank of North America shall come forward with any propositions which have for their objects, the engrafting upon that institution, the characteristics which shall appear to the Legislature necessary to the due extent and safety of a national bank, there are, in his judgment, weighty inducements to giving every reasonable facility to the measure. Not only the pretensions of that institution, from its original relation to the Government of the United States, and from the services it has rendered, are such as to claim a disposition favorable to it, if those who are interested in it are willing, on their part, to place it on a footing satisfactory to the government, and equal to the purposes of a bank of the United States, but its co-operation would materially accelerate the accomplishment of the great object, and the collision, which might otherwise arise, might, in a variety of ways, prove equally disagreeable and injurious. The incorporation or union here contemplated may be effected in different modes, under the auspices of an act of the United States, if it shall be desired by the Bank of North America, upon terms which shall appear expedient to the government.

All which is humbly submitted.

ALEXANDER HAMILTON,
Secretary of the Treasury.

WASHINGTON TO HAMILTON

SIR:

PHILADELPHIA, February 16, 1791.

An act to incorporate the subscribers to the Bank of the United States is now before me for consideration.

The constitutionality of it is objected to. It therefore becomes more particularly my duty to examine the ground on which the objection is built. As a means of investigation, I have called upon the Attorney-General of the United States, in whose line it seemed more particularly to be, for his official examination and opinion. His report is, that the Constitution does not warrant the act. I then applied to the Secretary of State for his sentiments on this subject. These coincide with the Attorney-General's; and the reasons for their opinions having been submitted in writing, I now require, in like manner, yours on the validity and propriety of the above-recited act; and, that you may know the points on which the Secretary of State and the Attorney-General dispute the constitutionality of the act, and that I may be fully possessed of the arguments *for* and *against* the measure, before I express any opinion of my own, I give you an opportunity of examining and answering the objections contained in the enclosed papers. I require the return of them when your own sentiments are handed to me (which I wish may be as soon as is convenient); and further, that no copies of them be taken, as it is for my own satisfaction they have been called for.

HAMILTON TO WASHINGTON

Monday.

The Secretary of the Treasury presents his respects to the President of the United States, to request his indulgence for not having yet furnished his reasons on a certain point. He has been ever since sedulously engaged in it, but finds it will be impossible to complete it before Tuesday evening or

Wednesday morning early. He is anxious to give the point a thorough examination.

HAMILTON TO WASHINGTON

The Secretary of the Treasury presents his respects to the President, and sends him the opinion required, which occupied him the greatest part of last night.

The bill for extending the time of opening subscriptions passed yesterday unanimously to an order for engrossing.

Opinion as to the Constitutionality of the Bank of the United States

February 23, 1791.

The Secretary of the Treasury having perused with attention the papers containing the opinions of the Secretary of State and the Attorney-General, concerning the constitutionality of the bill for establishing a national bank, proceeds, according to the order of the President, to submit the reasons which have induced him to entertain a different opinion.

It will naturally have been anticipated, that in performing this task he would feel uncommon solicitude. Personal considerations alone, arising from the reflection that the measure originated with him, would be sufficient to produce it. The sense which he has manifested of the great importance of such an institution to the successful administration of the department under his particular care, and an expectation of serious ill consequences to result from

a failure of the measure, do not permit him to be without anxiety on public accounts. But the chief solicitude arises from a firm persuasion, that principles of construction like those espoused by the Secretary of State and the Attorney-General would be fatal to the just and indispensable authority of the United States.

In entering upon the argument, it ought to be premised that the objections of the Secretary of State and the Attorney-General are founded on a general denial of the authority of the United States to erect corporations. The latter, indeed, expressly admits, that if there be anything in the bill which is not warranted by the Constitution, it is the clause of incorporation.

Now it appears to the Secretary of the Treasury that this *general principle is inherent* in the very *definition* of government, and *essential* to every step of the progress to be made by that of the United States, namely: That every power vested in a government is in its nature *sovereign*, and includes, by *force* of the *term*, a right to employ all the *means* requisite and fairly applicable to the attainment of the *ends* of such power, and which are not precluded by restrictions and exceptions specified in the Constitution, or not immoral, or not contrary to the *essential ends* of political society.¹

This principle, in its application to government in general, would be admitted as an axiom; and it will be incumbent upon those who may incline to deny

¹ This is the beginning of the argument in favor of the implied powers of the Constitution which Hamilton was the first to evoke.

it, to prove a distinction, and to show that a rule which, in the general system of things, is essential to the preservation of the social order, is inapplicable to the United States.

The circumstance that the powers of sovereignty are in this country divided between the National and State governments, does not afford the distinction required. It does not follow from this, that each of the portion of *powers* delegated to the one or to the other, is not sovereign with *regard to its proper objects*. It will only *follow* from it, that each has sovereign power as to *certain things*, and not as to *other things*. To deny that the Government of the United States has sovereign power, as to its declared purposes and trusts, because its power does not extend to all cases, would be equally to deny that the State governments have sovereign power in any case, because their power does not extend to every case. The tenth section of the first article of the Constitution exhibits a long list of very important things which they may not do. And thus the United States would furnish the singular spectacle of a *political society* without *sovereignty*, or of a *people governed*, without *government*.

If it would be necessary to bring proof to a proposition so clear, as that which affirms that the powers of the Federal Government, as to *its objects*, were sovereign, there is a clause of its Constitution which would be decisive. It is that which declares that the Constitution, and the laws of the United States made in pursuance of it, and all treaties made, or which shall be made, under their authority, shall

be the *supreme law of the land*. The power which can create the *supreme law of the land* in *any case*, is doubtless *sovereign* as to such case.

This general and indisputable principle puts at once an end to the *abstract* question, whether the United States have power to erect a *corporation*; that is to say, to give a *legal* or *artificial capacity* to one or more persons, distinct from the *natural*. For it is unquestionably incident to *sovereign power* to erect corporations, and consequently to *that* of the United States, in *relation* to the *objects* intrusted to the management of the government. The difference is this: where the authority of the government is general, it can create corporations in *all cases*; where it is confined to certain branches of legislation, it can create corporations *only* in those cases.

Here, then, as far as concerns the reasonings of the Secretary of State and the Attorney-General, the affirmative of the constitutionality of the bill might be permitted to rest. It will occur to the President, that the principle here advanced has been untouched by either of them.

For a more complete elucidation of the point, nevertheless, the arguments which they had used against the power of the government to erect corporations, however foreign they are to the great and fundamental rule which has been stated, shall be particularly examined. And after showing that they do not tend to impair its force, it shall also be shown that the power of incorporation, incident to the government in certain cases, does fairly extend to the particular case which is the object of the bill.

The first of these arguments is, that the foundation of the Constitution is laid on this ground: "That all powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States, or to the people." Whence it is meant to be inferred, that Congress can in no case exercise any power not included in those enumerated in the Constitution. And it is affirmed, that the power of erecting a corporation is not included in any of the enumerated powers.

The main proposition here laid down, in its true signification, is not to be questioned. It is nothing more than a consequence of this republican maxim, that all government is a delegation of power. But how much is delegated in each case is a question of fact, to be made out by fair reasoning and construction, upon the particular provisions of the Constitution, taking as guides the general principles and general ends of governments.

It is not denied that there are *implied*, as well as *express powers*, and that the *former* are as effectually delegated as the *latter*. And for the sake of accuracy it shall be mentioned that there is another class of powers, which may be properly denominated *resulting powers*. It will not be doubted that if the United States should make a conquest of any of the territories of its neighbors, they would possess sovereign jurisdiction over the conquered territory. This would be rather a result from the whole mass of the powers of the government, and from the nature of political society, than a consequence of either of the powers specially enumerated.

But be this as it may, it furnishes a striking illustration of the general doctrine contended for; it shows an extensive case, in which a power of erecting corporations is either implied in, or would result from, some or all of the powers vested in the National Government. The jurisdiction acquired over such conquered country would certainly be competent to any species of legislation.

To return:—It is conceded that *implied powers* are to be considered as delegated equally with *express ones*. Then it follows, that as a power of erecting a corporation may as well be *implied* as any other thing, it may as well be employed as an *instrument* or *means* of carrying into execution any of the specified powers, as any other *instrument* or *means* whatever. The only question must be in this, as in every other case, whether the means to be employed, or, in this instance, the corporation to be erected, has a natural relation to any of the acknowledged objects or lawful ends of the government. Thus a corporation may not be erected by Congress for superintending the police of the city of Philadelphia, because they are not authorized to *regulate* the *police* of that city. But one may be erected in relation to the collection of taxes, or to the trade with foreign countries, or to the trade between the States, or with the Indian tribes; because it is the province of the Federal Government to *regulate* those objects, and because it is incident to a general *sovereign* or *legislative* power to *regulate* a thing, to employ all the means which relate to its regulation to the best and greatest advantage.

A strange fallacy seems to have crept into the manner of thinking and reasoning upon this subject. Imagination appears to have been unusually busy concerning it. An incorporation seems to have been regarded as some *great independent substantive thing*; as a political end of peculiar magnitude and moment; whereas it is truly to be considered as a *quality, capacity, or means* to an end. Thus a mercantile company is formed, with a certain capital, for the purpose of carrying on a particular branch of business. Here the business to be prosecuted is the end. The association in order to form the requisite capital, is the primary mean. Suppose that an incorporation were added to this, it would only be to add a new *quality* to that association, to give it an artificial capacity, by which it would be enabled to prosecute the business with more safety and convenience.

That the importance of the power of incorporation has been exaggerated, leading to erroneous conclusions, will further appear from tracing it to its origin. The Roman law is the source of it, according to which a *voluntary* association of individuals, at *any time*, or for any purpose, was capable of producing it. In England, whence our notions of it are immediately borrowed, it forms part of the executive authority, and the exercise of it has been often *delegated* by that authority. Whence, therefore, the ground of the supposition that it lies beyond the reach of all those very important portions of sovereign power, legislative as well as executive, which belong to the Government of the United States?

• Through this mode of reasoning respecting the

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right of employing all the means requisite to the execution of the specified powers of the government, it is to be objected, that none but necessary and proper means are to be employed; and the Secretary of State maintains, that no means are to be considered *necessary* but those without which the grant of the power would be *nugatory*. Nay, so far does he go in his restrictive interpretation of the *word*, as even to make the case of *necessity* which shall warrant the constitutional exercise of the power to depend on *casual* and *temporary* circumstances; an idea which alone refutes the construction. The *expediency* of exercising a particular power, at a particular time, must, indeed, depend on circumstances; but the constitutional right of exercising it must be uniform and invariable, the same to-day as to-morrow.

All the arguments, therefore, against the constitutionality of the bill derived from the accidental existence of certain State banks—institutions which happen to exist to-day, and, for aught that concerns the government of the United States, may disappear to-morrow—must not only be rejected as fallacious, but must be viewed as demonstrative that there is a *radical* source of error in the reasoning.

It is essential to the being of the national government, that so erroneous a conception of the meaning of the word *necessary* should be exploded.

It is certain, that neither the grammatical nor popular sense of the term requires that construction. According to both, *necessary* often means no more than *needful*, *requisite*, *incidental*, *useful*, or *conducive*

to. It is a common mode of expression to say, that it is *necessary* for a government or a person to do this or that thing, when nothing more is intended or understood, than that the interests of the government or person require, or will be promoted by, the doing of this or that thing. The imagination can be at no loss for exemplifications of the use of the word in this sense. And it is the true one in which it is to be understood as used in the Constitution. The whole turn of the clause containing it indicates, that it was the intent of the Convention, by that clause, to give a liberal latitude to the exercise of the specified powers. The expressions have peculiar comprehensiveness. They are, "to make all *laws* necessary and proper for *carrying into execution* the *foregoing powers*, and *all other powers* vested by the Constitution in the *Government* of the United States, or in any *department* or *officer* thereof."

To understand the word as the Secretary of State does, would be to depart from its obvious and popular sense, and to give it a restrictive operation, an idea never before entertained. It would be to give it the same force as if the word *absolutely* or *indispensably* had been prefixed to it.

Such a construction would beget endless uncertainty and embarrassment. The cases must be palpable and extreme, in which it could be pronounced, with certainty, that a measure was absolutely necessary, or one, without which the exercise of a given power would be nugatory. There are few measures of any government which would stand so severe a test. To insist upon it, would be to make the

criterion of the exercise of any implied power, a *case of extreme necessity*; which is rather a rule to justify the overleaping of the bounds of constitutional authority, than to govern the ordinary exercise of it.

It may be truly said of every government, as well as of that of the United States, that it has only a right to pass such laws as are necessary and proper to accomplish the objects intrusted to it. For no government has a right to do *merely what it pleases*. Hence, by a process of reasoning similar to that of the Secretary of State, it might be proved that neither of the State governments has the right to incorporate a bank. It might be shown that all the public business of the State could be performed without a bank, and inferring thence that it was unnecessary, it might be argued that it could not be done, because it is against the rule which has been just mentioned. A like mode of reasoning would prove that there was no power to incorporate the inhabitants of a town, with a view to a more perfect police. For it is certain that an incorporation may be dispensed with, though it is better to have one. It is to be remembered that there is no *express* power in any State constitution to erect corporations.

The *degree* in which a measure is necessary can never be a *test* of the legal right to adopt it; that must be a matter of opinion, and can only be a *test* of expediency. The *relation* between the *measure* and the *end*; between the *nature* of the *means* employed towards the execution of a power, and the object of that power, must be the criterion of constitutionality, not the more or less of *necessity* or *utility*.

The practice of the government is against the rule of construction advocated by the Secretary of State. Of this, the act concerning light-houses, beacons, buoys, and public piers is a decisive example. This, doubtless, must be referred to the powers of regulating trade, and is fairly relative to it. But it cannot be affirmed that the exercise of that power in this instance was strictly *necessary*, or that the power itself would be *nugatory*, without that of regulating establishments of this nature.

This restrictive interpretation of the word *necessary* is also contrary to this sound maxim of construction; namely, that the powers contained in a constitution of government, especially those which concern the general administration of the affairs of a country, its finances, trade, defence, etc., ought to be construed liberally in advancement of the public good. This rule does not depend on the particular form of a government, or on the particular demarcation of the boundaries of its powers, but on the nature and objects of government itself. The means by which national exigencies are to be provided for, national inconveniences obviated, national prosperity promoted, are of such infinite variety, extent, and complexity, that there must of necessity be great latitude of discretion in the selection and application of those means. Hence, consequently, the necessity and propriety of exercising the authorities intrusted to a government on principles of liberal construction.

The Attorney-General admits the *rule*, but makes a distinction between a State and the Federal Constitution. The latter, he thinks, ought to be

construed with greater strictness, because there is more danger of error in defining *partial* than *general* powers. But the reason of the *rule* forbids such a distinction. This reason is, the variety and extent of public exigencies, a far greater proportion of which, and of a far more critical kind, are objects of *National* than of *State* administration. The greater danger of error, as far as it is supposable, may be a prudential reason for caution in practice, but it cannot be a rule of restrictive interpretation.

In regard to the clause of the Constitution immediately under consideration, it is admitted by the Attorney-General, that no *restrictive* effect can be ascribed to it. He defines the word *necessary* thus: "To be *necessary* is to be *incidental*, and may be denominated the natural means of executing a power."

But while on the one hand the construction of the Secretary of State is deemed inadmissible, it will not be contended, on the other, that the clause in question gives any *new* or *independent* power. But it gives an explicit sanction to the doctrine of *implied powers*, and is equivalent to an admission of the proposition that the government, as to its *specified powers* and *objects*, has plenary and sovereign authority, in some cases paramount to the States; in others, co-ordinate with it. For such is the plain import of the declaration, that it may pass all *laws* necessary and proper to carry into execution those powers.

It is no valid objection to the doctrine to say, that it is calculated to extend the power of the

General Government throughout the entire sphere of State legislation. The same thing has been said, and may be said, with regard to every exercise of power by *implication* or *construction*.

The moment the literal meaning is departed from, there is a chance of error and abuse. And yet an adherence to the letter of its powers would at once arrest the motions of government. It is not only agreed, on all hands, that the exercise of constructive powers is indispensable, but every act which has been passed is more or less an exemplification of it. One has been already mentioned—that relating to light-houses, etc.; that which declares the power of the President to remove officers at pleasure, acknowledges the same truth in another and a signal instance.

The truth is, that difficulties on this point are inherent in the nature of the Federal Constitution; they result inevitably from a division of the legislative power. The consequence of this division is, that there will be cases clearly within the power of the National Government; others, clearly without its powers; and a third class, which will leave room for controversy and difference of opinion, and concerning which a reasonable latitude of judgment must be allowed.

But the doctrine which is contended for is not chargeable with the consequences imputed to it. It does not affirm that the National Government is sovereign in all respects, but that it is sovereign to a certain extent—that is, to the extent of the objects of its specified powers.

It leaves, therefore, a criterion of what is constitutional, and of what is not so. This criterion is the *end*, to which the measure relates as a *means*. If the *end* be clearly comprehended within any of the specified powers, and if the measure have an obvious relation to that *end*, and is not forbidden by any particular provision of the Constitution, it may safely be deemed to come within the compass of the national authority. There is also this further criterion, which may materially assist the decision: Does the proposed measure abridge a pre-existing right of any State or of any individual? If it does not, there is a strong presumption in favor of its constitutionality, and slighter relations to any declared object of the Constitution may be permitted to turn the scale.

The general objections, which are to be inferred from the reasonings of the Secretary of State and the Attorney-General, to the doctrines which have been advanced, have been stated, and it is hoped satisfactorily answered. Those of a more particular nature shall now be examined.

The Secretary of State introduces his opinion with an observation, that the proposed incorporation undertakes to create certain capacities, properties, or attributes, which are against the laws of *alienage*, *descents*, *escheat*, and *forfeiture*, *distribution* and *monopoly*, and to confer a power to make laws paramount to those of the States. And nothing, says he, in another place, but *necessity*, *invincible* by *other means*, can justify such a *prostration* of laws, which constitute the pillars of our whole system of juris-

prudence, and are the foundation laws of the State governments. If these are truly the foundation laws of the several States, then have most of them subverted their own foundations. For there is scarcely one of them which has not, since the establishment of its particular constitution, made material alterations in some of those branches of its jurisprudence, especially the law of descents. But it is not conceived how any thing can be called the fundamental law of a State government, which is not established in its constitution, unalterable by the ordinary Legislature. And with regard to the question of necessity, it has been shown that this can only constitute a question of expediency, not of right.

To erect a corporation, is to substitute a *legal* or *artificial* to a *natural* person, and where a number are concerned, to give them *individuality*. To that *legal* or *artificial* person, once created, the common law of every State, of itself, annexes all those incidents and attributes which are represented as a prostration of the main pillars of their jurisprudence.

It is certainly not accurate to say that the erection of a corporation is *against* those different *heads* of the State laws; because it is rather to create a kind of person or entity, to which they are inapplicable, and to which the general rule of those laws assign a different regimen. The laws of alienage cannot apply to an artificial person, because it can have no country; those of descent cannot apply to it, because it can have no heirs; those of escheat are foreign from it, for the same reason; those of

forfeiture, because it cannot commit a crime; those of distribution, because, though it may be dissolved, it cannot die.

As truly might it be said, that the exercise of the power of prescribing the rule by which foreigners shall be naturalized is against the law of alienage, while it is, in fact, only to put them in a situation to cease to be the subject of that law. To do a thing which is against a law, is to do something which it forbids, or which is a violation of it.

But if it were even to be admitted that the erection of a corporation is a direct alteration of the stated laws, in the enumerated particulars, it would do nothing toward proving that the measure was unconstitutional. If the Government of the United States can do no act which amounts to an alteration of a State law, all its powers are nugatory; for almost every new law is an alteration, in some way or another, of an *old law*, either *common* or *statute*.

There are laws concerning bankruptcy in some States. Some States have laws regulating the values of foreign coins. Congress are empowered to establish uniform laws concerning bankruptcy throughout the United States, and to regulate the values of foreign coins. The exercise of either of these powers by Congress necessarily involves an alteration of the laws of those States.

Again. Every person, by the common law of each State, may export his property to foreign countries, at pleasure. But Congress in pursuance of the power of regulating trade, may *prohibit* the exportation of commodities; in doing which, they would

alter the common law of each State, in abridgment of individual right.

It can therefore never be good reasoning to say this or that act is unconstitutional, because it alters this or that law of a State. It must be shown that the act which makes the alteration is unconstitutional on other accounts; not *because* it makes the alteration.

There are two points in the suggestions of the Secretary of State, which have been noted, that are peculiarly incorrect. One is, that the proposed incorporation is against the laws of monopoly, because it stipulates an exclusive right of banking under the national authority; the other, that it gives power to the institution to make laws paramount to those of the States.

But, with regard to the first point: The bill neither prohibits any State from erecting as many banks as they please, nor any number of individuals from associating to carry on the business, and consequently is free from the charge of establishing a monopoly; for monopoly implies a *legal impediment* to the carrying on of the trade by others than those to whom it is granted.

And with regard to the second point, there is still less foundation. The by-laws of such an institution as a bank can operate only on its own members, can only concern the disposition of its own property, and must essentially resemble the rules of a private mercantile partnership. They are expressly not to be contrary to law; and law must here mean the law of a State, as well as of the United States. There

never can be a doubt, that a law of a corporation, if contrary to a law of a State, must be overruled as void, unless the law of the State is contrary to that of the United States, and then the question will not be between the law of the State and that of the corporation, but between the law of the State and that of the United States.

Another argument made use of by the Secretary of State is, the rejection of a proposition by the Convention to empower Congress to make corporations, either generally, or for some special purpose.

What was the precise nature or extent of this proposition, or what the reasons for refusing it, is not ascertained by any authentic document, or even by accurate recollection. As far as any such document exists, it specifies only canals. If this was the amount of it, it would, at most, only prove that it was thought inexpedient to give a power to incorporate for the purpose of opening canals, for which purpose a special power would have been necessary, except with regard to the western territory, there being nothing in any part of the Constitution respecting the regulation of canals. It must be confessed, however, that very different accounts are given of the import of the proposition, and of the motives for rejecting it. Some affirm that it was confined to the opening of canals and obstructions in rivers; others, that it embraced banks; and others, that it extended to the power of incorporating generally. Some, again, allege that it was disagreed to because it was thought improper to vest in Congress a power of erecting corporations. Others,

because it was thought unnecessary to *specify* the power, and inexpedient to furnish an additional topic of objection to the Constitution. In this state of the matter, no inference whatever can be drawn from it.

But whatever may have been the nature of the proposition, or the reasons for rejecting it, it includes nothing in respect to the real merits of the question. The Secretary of State will not deny that, whatever may have been the intention of the framers of a constitution or of a law, that intention is to be sought for in the instrument itself, according to the usual and established rules of construction. Nothing is more common than for laws to *express* and *effect* more or less than was intended. If, then, a power to erect a corporation in any case be deducible, by fair inference, from the whole or any part of the numerous provisions of the Constitution of the United States, arguments drawn from extrinsic circumstances, regarding the intention of the Convention, must be rejected.

Most of the arguments of the Secretary of State, which have not been considered in the foregoing remarks, are of a nature rather to apply to the expediency than to the constitutionality of the bill. They will, however, be noticed in the discussions which will be necessary in reference to the particular heads of the powers of the government which are involved in the question.

Those of the Attorney-General will now properly come under view.

His first objection is, that the power of incorporation is not *expressly* given to Congress. This shall

be conceded, but in *this sense only*, that it is not declared in *express terms* that Congress may erect a corporation. But this cannot mean, that there are not certain *express powers* which *necessarily* include it. For instance, Congress have express power to exercise exclusive legislation, in all cases whatsoever, over such *district* (not exceeding ten miles square) as may, by cession of particular States and the acceptance of Congress, become the seat of the Government of the United States; and to exercise *like authority* over all places purchased, by consent of the Legislature of the State in which the same shall be, for the erection of forts, arsenals, dockyards, and other needful buildings. Here, then, is express power to exercise *exclusive legislation*, in *all cases whatsoever*, over *certain places*—that is, to do, in respect to those places, all that any government whatsoever may do. For language does not afford a more complete designation of sovereign power than in those comprehensive terms. It is, in other words, a power to pass all laws whatsoever, and, consequently, to pass laws for erecting corporations, as well as for any other purpose which is the proper object of law in a free government.

Surely it can never be believed that Congress, with *exclusive powers of legislation in all cases whatsoever*, cannot erect a corporation within the district which shall become the seat of government, for the better regulation of its police. And yet there is an unqualified denial of the power to erect corporations in every case, on the part both of the Secretary of State and of the Attorney-General; the former, in-

deed, speaks of that power in these emphatical terms: That it is a *right remaining exclusively with the States*.

As far, then, as there is an *express power* to do any *particular act of legislation*, there is an *express one* to erect a corporation in the case above described. But, accurately speaking, no *particular power* is more than *that implied in a general one*. Thus the power to lay a duty on a *gallon of rum* is only a *particular implied* in the general power to lay and collect taxes, duties, imposts, and excises. This serves to explain in what sense it may be said that Congress have not an express power to make corporations.

This may not be an improper place to take notice of an argument which was used in debate in the House of Representatives. It was there argued, that if the Constitution intended to confer so important a power as that of erecting corporations, it would have been expressly mentioned. But the case which has been noticed is clearly one in which such a power exists, and yet without any specification or express grant of it, further than as every *particular implied* in a general power can be said to be so granted.

But the argument itself is founded upon an exaggerated and erroneous conception of the nature of the power. It has been shown that it is not of so transcendent a kind as the reasoning supposes, and that, viewed in a just light, it is a means, which ought to have been left to *implication*, rather than an *end*, which ought to have been expressly granted.

Having observed that the power of erecting corporations is not expressly granted to Congress, the Attorney-General proceeds thus:

If it can be exercised by them, it must be—

1. Because the nature of the Federal Government implies it.
2. Because it is involved in some of the specified powers of legislation.
3. Because it is necessary and proper to carry into execution some of the specified powers.

To be implied in the *nature* of the *Federal Government*, says he, would beget a doctrine so indefinite as to grasp at every power.

This proposition, it ought to be remarked, is not precisely, or even substantially, that which has been relied upon. The proposition relied upon is, that the *specified powers of Congress* are in their nature *sovereign*; that it is incident to sovereign power to erect corporations, and that therefore Congress have a right, within the *sphere* and in *relation* to the *objects of their power*, to *erect corporations*. It shall, however, be supposed that the Attorney-General would consider the two propositions in the same light, and that the objection made to the one would be made to the other.

To this objection an answer has been already given. It is this: that the doctrine is stated with this *express qualification*, that the right to erect corporations does *only* extend to *cases* and *objects* within the *sphere* of the *specified powers* of the *government*. A *general* legislative authority implies a

power to erect corporations in *all cases*. A *particular* legislative power implies authority to erect corporations in relation to cases arising under *that power only*. Hence the affirming that, as *incident* to sovereign power, Congress may erect a corporation in relation to the *collection* of their taxes, is no more than to affirm that they may do whatever else they please; than the saying that they have a power to regulate trade, would be to affirm that they have a power to regulate religion; or than the maintaining that they have sovereign power as to taxation, would be to maintain that they have sovereign power as to every thing else.

The Attorney-General undertakes in the next place to show, that the power of erecting corporations is not involved in any of the specified powers of legislation confided to the National Government. In order to do this, he has attempted an enumeration of the particulars, which he supposes to be comprehended under the several heads of the *powers* to lay and collect taxes, etc.; to borrow money on the credit of the United States; to regulate commerce with sovereign nations, between the States, and with the Indian tribes; to dispose of and make all needful rules and regulations respecting the territory or other property belonging to the United States. The design of which enumeration is to show *what* is included under those different heads of power, and negatively, that the power of erecting corporations is not included.

The truth of this inference or conclusion must depend on the accuracy of the enumeration. If it can

be shown that the enumeration is *defective*, the influence is destroyed. To do this will be attended with no difficulty.

The heads of the power to lay and collect taxes are stated to be:

1. To stipulate the sum to be lent.
2. An interest or no interest to be paid.
3. The time and manner of repaying, unless the loan be placed on an irredeemable fund.

This enumeration is liable to a variety of objections. It omits, in the first place, the *pledging* or *mortgaging* of a fund for the security of the money lent, a usual and in most cases an essential ingredient.

The idea of a stipulation of an *interest* or no *interest* is too confined. It should rather have been said, to stipulate the *consideration* of the loan. Individuals often borrow on considerations other than the payment of interest; so may governments, and so they often find it necessary to do. Every one recollects the lottery tickets and other douceurs often given in Great Britain as collateral inducements to the lending of money to the government. There are also frequently collateral conditions, which the enumeration does not contemplate. Every contract which has been made for moneys borrowed in Holland, induces stipulations that the sum due shall be *free* from *taxes*, and from sequestration in time of war, and mortgages all the land and property of the United States for the reimbursements.

It is also known that a lottery is a common expedient for borrowing money, which certainly does not fall under either of the enumerated heads.

The heads of the power to regulate commerce with foreign nations are stated to be:

1. To prohibit them or their commodities from our ports.
2. To impose duties on them, where none existed before, or to increase existing duties on them.
3. To subject them to any species of custom-house regulation.
4. To grant them any exemptions or privileges which policy may suggest.

This enumeration is far more exceptionable than either of the former. It omits *every thing* that relates to the *citizens' vessels*, or *commodities* of the United States.

The following palpable omissions occur at once:

1. Of the power to prohibit the exportation of commodities, which not only exists at all times, but which in time of war it would be necessary to exercise, particularly with relation to naval and warlike stores.
2. Of the power to prescribe rules concerning the characteristics and privileges of an American bottom; how she shall be navigated, or whether by citizens or foreigners, or by a proportion of each.
3. Of the power of regulating the manner of contracting with seamen, the police of ships on their voyages, etc., of which the act for the government and regulation of seamen, in the merchants' service, is a specimen.

That the three preceding articles are omissions will not be doubted; there is a long list of items in addition, which admit of little if any question, of which a few samples shall be given.

1. The granting of bounties to certain kinds of vessels, and certain species of merchandise; of this nature is the allowance on dried and pickled fish and salted provisions.

2. The prescribing of rules concerning the *inspection* of commodities to be exported. Though the States individually are competent to this regulation, yet there is no reason, in point of authority at least, why a general system might not be adopted by the United States.

3. The regulation of policies of insurance, of salvage upon goods found at sea, and the disposition of such goods.

4. The regulation of pilots.

5. The regulation of bills of exchange drawn by a merchant of *one State* upon a merchant of *another State*. This last rather belongs to the regulation of trade between the States, but is equally omitted in the specification under that head.

The last enumeration relates to the power to dispose of and make all *needful rules* and *regulations* respecting the territory or *other property* belonging to the United States.

The heads of this power are said to be:

1. To exert an ownership over the territory of the United States, which may be properly called the property of the United States, as in the western territory, and to *institute a government therein*, or

2. To exert an ownership over the other property of the United States.

The idea of exerting an ownership over the territory or other property of the United States is par-

ticularly indefinite and vague. It does not at all satisfy the conception of what must have been intended by a power to make all *needful rules and regulations*, nor would there have been any use for a special clause, which authorized nothing more. For the right of exerting an ownership is implied in the very definition of property. It is admitted, that in regard to the western territory something more is intended; even the institution of a government—that is, the creation of a body politic, or corporation of the highest nature; one which, in its maturity, will be able itself to create other corporations. Why, then, does not the same clause authorize the erection of a corporation in respect to the regulation or disposal of any other of the property of the United States?

This idea will be enlarged upon in another place.

Hence it appears, that the enumerations which have been attempted by the Attorney-General, are so imperfect as to authorize no conclusion whatever; they therefore have no tendency to disprove that each and every of the powers to which they relate includes that of erecting corporations, which they certainly do, as the subsequent illustrations will more and more evince.

It is presumed to have been satisfactorily shown in the course of the preceding observations:

1. That the power of the government, as to the objects intrusted to its management, is, in its nature, sovereign.
2. That the right of erecting corporations is one inherent in, and inseparable from, the idea of sovereign power.

3. That the position, that the government of the United States can exercise no power but such as is delegated to it by its Constitution, does not militate against this principle.

4. That the word *necessary*, in the general clause, can have no *restrictive* operation derogating from the force of this principle; indeed, that the degree in which a measure is or is not *necessary*, cannot be a *test* of *constitutional right*, but of *expediency only*.

5. That the power to erect corporations is not to be considered as an *independent* or *substantive* power, but as an *incidental* and *auxiliary* one, and was therefore more properly left to implication, than expressly granted.

6. That the principle in question does not extend the power of the government beyond the prescribed limits, because it only affirms a power to *incorporate* for purposes *within the sphere* of the *specified powers*.

And lastly, that the right to exercise such a power in certain cases is unequivocally granted in the most *positive* and *comprehensive* terms. To all which it only remains to be added, that such a power has actually been exercised in two very eminent instances: namely, in the erection of two governments; one northwest of the river Ohio, and the other southwest—the last independent of any antecedent compact. And these result in a full and complete demonstration, that the Secretary of State and the Attorney-General are mistaken when they deny generally the power of the National Government to erect corporations.

It shall now be endeavored to be shown that there

is a power to erect one of the kind proposed by the bill. This will be done by tracing a natural and obvious relation between the institution of a bank and the objects of several of the enumerated powers of the government; and by showing that, *politically* speaking, it is necessary to the effectual execution of one or more of those powers.

In the course of this investigation, various instances will be stated, by way of illustration of a right to erect corporations under those powers.

Some preliminary observations may be proper.

The proposed bank is to consist of an association of persons, for the purpose of creating a joint capital, to be employed chiefly and essentially in loans. So far the object is not only lawful, but it is the mere exercise of a right which the law allows to every individual. The Bank of New York, which is not incorporated, is an example of such an association. The bill proposes, in addition, that the government shall become a joint proprietor in this undertaking, and that it shall permit the bills of the company, payable on demand, to be receivable in its revenues; and stipulates that it shall not grant privileges, similar to those which are to be allowed to this company, to any others. All this is incontrovertibly within the compass of the discretion of the government. The only question is, whether it has a right to incorporate this company, in order to enable it the more effectually to accomplish ends which are in themselves lawful.

To establish such a right, it remains to show the relation of such an institution to one or more of the

specified powers of the government. Accordingly it is affirmed that it has a relation, more or less direct, to the power of collecting taxes, to that of borrowing money, to that of regulating trade between the States, and to those of raising and maintaining fleets and armies. To the two former the relation may be said to be immediate; and in the last place it will be argued, that it is clearly within the provision which authorizes the making of all *needful rules and regulations* concerning the *property* of the United States, as the same has been practised upon by the government.

A bank relates to the collection of taxes in two ways—*indirectly*, by increasing the quantity of circulating medium and quickening circulation, which facilitates the means of paying directly, by creating a *convenient species* of medium in which they are to be paid.

To designate or appoint the *money* or *thing* in which taxes are to be paid, is not only a proper but a *necessary exercise* of the power of collecting them. Accordingly Congress, in the law concerning the collection of the duties on imposts and tonnage, have provided that they shall be paid in gold and silver. But while it was an indispensable part of the work to say in what they should be paid, the choice of the specific thing was mere matter of discretion. The payment might have been required in the commodities themselves. Taxes in kind, however ill-judged, are not without precedents, even in the United States; or it might have been in the paper money of the several States, or in the bills of

the banks of North America, New York, and Massachusetts, all or either of them; or it might have been in bills issued under the authority of the United States.

No part of this can, it is presumed, be disputed. The appointment, then, of the *money* or *thing* in which the taxes are to be paid, is an incident to the power of collection. And among the expedients which may be adopted, is that of bills issued under the authority of the United States.

Now the manner of issuing these bills is again matter of discretion. The government might doubtless proceed in the following manner:

It might provide that they should be issued under the direction of certain officers, payable on demand; and, in order to support their credit, and give them a ready circulation, it might, besides giving them a currency in its taxes, set apart, out of any moneys in its treasury, a given sum, and appropriate it, under the direction of those officers, as a fund for answering the bills, as presented for payment.

The constitutionality of all this would not admit of a question, and yet it would amount to the institution of a bank, with a view to the more convenient collection of taxes. For the simplest and most precise idea of a bank is, a deposit of coin, or other property, as a fund for *circulating a credit* upon it, which is to answer the purpose of money. That such an arrangement would be equivalent to the establishment of a bank, would become obvious, if the place where the fund to be set apart was kept should be made a receptacle of the moneys of all

other persons who should incline to deposit them there for safe-keeping; and would become still more so, if the officers charged with the direction of the fund were authorized to make discounts at the usual rate of interest, upon good security. To deny the power of the government to add these ingredients to the plan, would be to refine away all government.

A further process will still more clearly illustrate the point. Suppose, when the species of bank which has been described was about to be instituted, it was to be urged that, in order to secure to it a due degree of confidence, the fund ought not only to be set apart and appropriated generally, but ought to be specifically vested in the officers who were to have the direction of it, and in their *successors* in office, to the end that it might acquire the character of *private property* incapable of being resumed without a violation of the sanctions by which the rights of property are protected, and occasioning more serious and general alarm—the apprehension of which might operate as a check upon the government. Such a proposition might be opposed by arguments against the expediency of it, or the solidity of the reason assigned for it, but it is not conceivable what could be urged against its constitutionality; and yet such a disposition of the thing would amount to the erection of a corporation; for the true definition of a corporation seems to be this: It is a *legal* person, or a person created by act of law, consisting of one or more natural persons authorized to hold property, or a franchise in succession, in a legal, as contradistinguished from natural, capacity.

Let the illustration proceed a step further. Suppose a bank of the nature which has been described, with or without incorporation, had been instituted, and that experience had evinced, as it probably would, that, being wholly under a public direction, it possessed not the confidence requisite to the credit of the bills. Suppose, also, that, by some of those adverse conjunctures which occasionally attend nations, there had been a very great drain of the specie of the country, so as not only to cause general distress for want of an adequate medium of circulation, but to produce, in consequence of that circumstance, considerable defalcations in the public revenues. Suppose, also, that there was no bank instituted in any State; in such a posture of things, would it not be most manifest, that the incorporation of a bank like that proposed by the bill would be a measure immediately relative to the *effectual collection* of the taxes, and completely within the province of the sovereign power of providing, by all laws necessary and proper, for that collection? If it be said, that such a state of things would render that necessary, and therefore constitutional, which is not so now, the answer to this, and a solid one it doubtless is, must still be that which has been already stated—circumstances may affect the expediency of the measure, but they can neither add to nor diminish its constitutionality.

A bank has a direct relation to the power of borrowing money, because it is a usual, and in sudden emergencies an essential, instrument in the obtaining of loans to government.

A nation is threatened with war; large sums are wanted on a sudden to make the necessary preparations. Taxes are laid for the purpose, but it requires time to obtain the benefit of them. Anticipation is indispensable. If there be a bank the supply can at once be had. If there be none, loans from individuals must be sought. The progress of these is often too slow for the exigency; in some situations they are not practicable at all. Frequently, when they are, it is of great consequence to be able to anticipate the product of them by advance from a bank.

The essentiality of such an institution as an instrument of loans, is exemplified at this very moment. An Indian expedition is to be prosecuted. The only fund out of which the money can arise, consistently with the public engagements, is a tax, which only begins to be collected in July next. The preparations, however, are instantly to be made. The money must, therefore, be borrowed—and of whom could it be borrowed if there were no public banks?

It happens that there are institutions of this kind, but if there were none, it would be indispensable to create one.

Let it then be supposed that the necessity existed (as but for a casualty would be the case), that proposals were made for obtaining a loan; that a number of individuals came forward and said, we are willing to accommodate the government with the money; with what we have in hand, and the credit we can raise upon it, we doubt not of being able

to furnish the sum required, but in order to do this it is indispensable that we should be incorporated as a bank. This is essential towards putting it in our power to do what is desired, and we are obliged on that account to make it the *consideration* or *condition* of the loan.

Can it be believed that a compliance with this proposition would be unconstitutional? Does not this alone evince the contrary? It is a necessary part of a power to borrow, to be able to stipulate the consideration or conditions of a loan. It is evident, as has been remarked elsewhere, that this is not confined to the mere stipulation of a *franchise*. If it may, and it is not perceived why it may not, then the grant of a corporate capacity may be stipulated as a consideration of the loan. There seems to be nothing unfit or foreign from the nature of the thing in giving individuality, or a corporate capacity, to a number of persons, who are willing to lend a sum of money to the government, the better to enable them to do it, and make them an ordinary instrument of loans in future emergencies of the state. But the more general view of the subject is still more satisfactory. The legislative power of borrowing money, and of making all laws necessary and proper for carrying into execution that power, seems obviously competent to the appointment of the *organ*, through which the abilities and wills of individuals may be most efficaciously exerted for the accommodation of the government by loans.

The Attorney-General opposes to this reasoning the following observation: "Borrowing money

presupposes the accumulation of a fund to be lent, and is second to the creation of an ability to lend." This is plausible in theory, but is not true in fact. In a great number of cases, a previous accumulation of a fund equal to the whole sum required does not exist. And nothing more can be actually presupposed, than that there exist resources, which, put into activity to the greatest advantage by the nature of the operation with the government, will be equal to the effect desired to be produced. All the provisions and operations of government must be presumed to contemplate as they *really* are.

The institution of a bank has also a natural relation to the regulation of trade between the States, in so far as it is conducive to the creation of a convenient medium of *exchange* between them, and to the keeping up a full circulation, by preventing the frequent displacement of the metals in reciprocal remittances. Money is the very hinge on which commerce turns. And this does not merely mean gold and silver; many other things have served the purpose, with different degrees of utility. Paper has been extensively employed.

It cannot, therefore, be admitted, with the Attorney-General, that the regulation of trade between the States, as it concerns the medium of circulation and exchange, ought to be considered as confined to coin. It is even supposable that the whole, or the greatest part, of the coin of the country might be carried out of it.

The Secretary of State objects to the relation here insisted upon, by the following mode of reasoning:

To erect a bank, says he, and to regulate commerce, are very different acts. He who creates a bank, creates a subject of commerce; so does he who makes a bushel of wheat, or digs a dollar out of the mines; yet neither of these persons regulates commerce thereby. To make a thing which may be bought and sold, is not to prescribe regulations for *buying* and *selling*.

This making the regulation of commerce to consist in prescribing rules for *buying* and *selling*—this, indeed, is a species of regulation of trade, but is one which falls more aptly within the province of the local jurisdictions than within that of the general government, whose care must be presumed to have been intended to be directed to those general political arrangements concerning trade on which its aggregate interests depend, rather than to the details of *buying* and *selling*. Accordingly, such only are the regulations to be found in the laws of the United States, whose objects are to give encouragement to the enterprise of our own merchants, and to advance our navigation and manufactures. And it is in reference to these general relations of commerce that an establishment which furnishes facilities to circulation, and a convenient medium of exchange and alienation, is to be regarded as a regulation of trade.

The Secretary of State further argues that if this was a regulation of commerce, it would be void, as *extending as much to the internal commerce of every State as to its external*. But what regulation of commerce does not extend to the internal commerce of

every State? What are all the duties upon imported articles, amounting to prohibitions, but so many bounties upon domestic manufactures, affecting the interests of different classes of citizens, in different ways? What are all the provisions in the Coasting Act which relate to the trade between district and district of the same State? In short, what regulation of trade between the States but must affect the internal trade of each State? What can operate upon the whole but must extend to every part?

The relation of a bank to the execution of the powers that concern the common defence has been anticipated. It has been noted that, at this very moment, the aid of such an institution is essential to the measures to be pursued for the protection of our frontiers.

It now remains to show that the incorporation of a bank is within the operation of the provision which authorizes Congress to make all needful rules and regulations concerning the property of the United States. But it is previously necessary to advert to a distinction which has been taken by the Attorney-General.

He admits that the word *property* may signify personal property, however acquired, and yet asserts that it cannot signify money arising from the sources of revenue pointed out in the Constitution, "because," says he, "the disposal and regulation of money is the final cause for raising it by taxes."

But it would be more accurate to say that the *object* to which money is intended to be applied is

the *final cause* for raising it, than that the disposal and regulation of it is *such*.

The support of government—the support of troops for the common defence—the payment of the public debt, are the true *final causes* for raising money. The disposition and regulation of it, when raised, are the steps by which it is applied to the *ends* for which it was raised, not the *ends* themselves. Hence, therefore, the money to be raised by taxes, as well as any other personal property, must be supposed to come within the meaning, as they certainly do within the letter, of authority to make all needful rules and regulations concerning the property of the United States.

A case will make this plainer. Suppose the public debt discharged, and the funds now pledged for it liberated. In some instances it would be found expedient to repeal the taxes; in others, the repeal might injure our own industry, our agriculture and manufactures. In these cases they would, of course, be retained. Here, then, would be moneys arising from the authorized sources of revenue, which would not fall within the rule by which the Attorney-General endeavors to except them from other personal property, and from the operation of the clause in question. The moneys being in the coffers of government, what is to hinder such a disposition to be made of them as is contemplated in the bill; or what, an incorporation of the parties concerned, under the clause which has been cited?

It is admitted, that with regard to the western territory they give a power to erect a corporation—

that is, to institute a government; and by what rule of construction can it be maintained, that the same words in a constitution of government will not have the same effect when applied to one species of property as to another, as far as the subject is capable of it?—or that a legislative power to make all needful rules and regulations, or to pass all laws necessary and proper, concerning the public property, which is admitted to authorize an incorporation in one case, will not authorize it in another?—will justify the institution of a government over the western territory, and will not justify the incorporation of a bank for the more useful management of the moneys of the United States? If it will do the last, as well as the first, then, under this provision alone, the bill is constitutional, because it contemplates that the United States shall be joint proprietors of the stock of the bank.

There is an observation of the Secretary of State to this effect, which may require notice in this place:—Congress, says he, are not to lay taxes *ad libitum*, for any purpose they please, but only to pay the debts or provide for the welfare of the Union. Certainly no inference can be drawn from this against the power of applying their money for the institution of a bank. It is true that they cannot without breach of trust lay taxes for any other purpose than the general welfare; but so neither can any other government. The welfare of the community is the only legitimate end for which money can be raised on the community. Congress can be considered as under only one restriction which does not apply to other

governments—they cannot rightfully apply the money they raise to any purpose merely or purely local. But, with this exception, they have as large a discretion in relation to the application of money as any Legislature whatever. The constitutional *test* of a right application must always be, whether it be for a purpose of *general* or *local* nature. If the former, there can be no want of constitutional power. The quality of the object, as how far it will really promote or not the welfare of the Union, must be matter of conscientious discretion, and the arguments for or against a measure in this light must be arguments concerning expediency or in expediency, not constitutional right. Whatever relates to the general order of the finances, to the general interests of trade, etc., being general objects, are constitutional ones for the *application of money*.

A bank, then, whose bills are to circulate in all the revenues of the country, is *evidently* a *general* object, and, for that very reason, a constitutional one, as far as regards the appropriation of money to it. Whether it will really be a beneficial one or not, is worthy of careful examination, but is no more a constitutional point, in the particular referred to, than the question, whether the western lands shall be sold for twenty or thirty cents per acre.

A hope is entertained that it has, by this time, been made to appear, to the satisfaction of the President, that a bank has a natural relation to the power of collecting taxes—to that of regulating trade—to that of providing for the common defence—and that, as the bill under consideration contemplates

the government in the light of a joint proprietor of the stock of the bank, it brings the case within the provision of the clause of the Constitution which immediately respects the property of the United States.

Under a conviction that such a relation subsists, the Secretary of the Treasury, with all deference, conceives that it will result as a necessary consequence from the position, that all the specified powers of government are sovereign, as to the proper objects; that the incorporation of a bank is a constitutional measure; and that the objections taken to the bill, in this respect, are ill-founded.

But, from an earnest desire to give the utmost possible satisfaction to the mind of the President, on so delicate and important a subject, the Secretary of the Treasury will ask his indulgence, while he gives some additional illustrations of cases in which a power of erecting corporations may be exercised, under some of those heads of the specified powers of the government, which are alleged to include the right of incorporating a bank.

1. It does not appear susceptible of a doubt, that if Congress had thought proper to provide, in the collection laws, that the bonds to be given for the duties should be given to the collector of the district, A or B, as the case might require, to enure to him and his successors in office, in trust for the United States, that it would have been consistent with the Constitution to make such an arrangement; and yet this, it is conceived, would amount to an incorporation.

2. It is not an unusual expedient of taxation to farm particular branches of revenue—that is, to mortgage or sell the product of them for certain definite sums, leaving the collection to the parties to whom they are mortgaged or sold. There are even examples of this in the United States. Suppose that there was any particular branch of revenue which it was manifestly expedient to place on this footing, and there were a number of persons willing to engage with the government, upon condition that they should be incorporated, and the sums vested in them, as well for their greater safety, as for the more convenient recovery and management of the taxes. Is it supposable that there could be any constitutional obstacle to the measure? It is presumed that there could be none. It is certainly a mode of collection which it would be in the discretion of the government to adopt, though the circumstances must be very extraordinary that would induce the Secretary to think it expedient.

3. Suppose a new and unexplored branch of trade should present itself, with some foreign country. Suppose it was manifest, that to undertake it with advantage required a union of the capitals of a number of individuals, and that those individuals would not be disposed to embark without an incorporation, as well to obviate that consequence of a private partnership which makes every individual liable in his whole estate for the debts of the company, to their utmost extent, as for the more convenient management of the business—what reason can there be to doubt that the National Government would have

a constitutional right to institute and incorporate such a company? None. They possess a general authority to regulate trade with foreign countries. This is a means, which has been practised to that end, by all the principal commercial nations, who have trading companies to this day, which have subsisted for centuries. Why may not the United States, *constitutionally*, employ the *means*, usual in other countries, for attaining the *ends* intrusted to them?

A power to make all needful rules and regulations concerning territory, has been construed to mean a power to erect a government. A power to regulate trade, is a power to make all needful rules and regulations concerning trade. Why may it not, then, include that of erecting a trading company, as well as, in other cases, to erect a government?

It is remarkable that the State conventions, who had proposed amendments in relation to this point, have most, if not all, of them expressed themselves nearly thus: Congress shall not grant monopolies, nor *erect any company* with exclusive advantages of commerce! Thus, at the same time, expressing their sense, that the power to erect trading companies or corporations was inherent in Congress, and objecting to it no further than as to the grant of *exclusive* privileges.

The Secretary entertains all the doubts which prevail concerning the utility of such companies, but he cannot fashion to his own mind a reason, to induce a doubt, that there is a constitutional authority in the United States to establish them. If

such a reason were demanded, none could be given, unless it were this: That Congress cannot erect a corporation. Which would be no better than to say, they cannot do it, because they cannot do it—first presuming an inability, without reason, and then assigning that inability as the cause of itself. Illustrations of this kind might be multiplied without end. They shall, however, be pursued no further.

There is a sort of evidence on this point, arising from an aggregate view of the Constitution, which is of no inconsiderable weight: the very general power of laying and collecting taxes, and appropriating their proceeds—that of borrowing money indefinitely—that of coining money, and regulating foreign coins—that of making all needful rules and regulations respecting the property of the United States. These powers combined, as well as the reason and nature of the thing, speak strongly this language: that it is the manifest design and scope of the Constitution to vest in Congress all the powers requisite to the effectual administration of the finances of the United States. As far as concerns this object, there appears to be no parsimony of power.

To suppose, then, that the government is precluded from the employment of so usual and so important an instrument for the administration of its finances as that of a bank, is to suppose what does not coincide with the general tenor and complexion of the Constitution, and what is not agreeable to impressions that any new spectator would entertain concerning it.

Little less than a prohibitory clause can destroy

the strong presumptions which result from the general aspect of the government. Nothing but demonstration should exclude the idea that the power exists.

In all questions of this nature, the practice of mankind ought to have great weight against the theories of individuals.

The fact, for instance, that all the principal commercial nations have made use of trading corporations or companies, for the purpose of *external commerce*, is a satisfactory proof that the establishment of them is an incident to the regulation of the commerce.

This other fact, that banks are a usual engine in the administration of national finances, and an ordinary and most effectual instrument of loan, and one which, in this country, has been found essential, pleads strongly against the supposition that a government, clothed with most of the most important prerogatives of sovereignty in relation to its revenues, its debts, its credits, its defence, its trade, its intercourse with foreign nations, is forbidden to make use of that instrument as an appendage to its own authority.

It has been stated as an auxiliary test of constitutional authority, to try whether it abridges any pre-existing right of any State, or any individual. The proposed investigation will stand the most severe examination on this point. Each State may still erect as many banks as it pleases. Every individual may still carry on the banking business to any extent he pleases.

Another criterion may be this: whether the institution or thing has a more direct relation, as to its uses, to the objects of the reserved powers of the State governments than to those of the powers delegated by the United States. This rule, indeed, is less precise than the former; but it may still serve as some guide. Surely a bank has more reference to the objects intrusted to the National Government than to those left to the care of the State governments. The common defence is decisive in this comparison.

It is presumed that nothing of consequence in the observations of the Secretary of State and the Attorney-General has been left unnoticed.

There are, indeed, a variety of observations of the Secretary of State designed to show that the utilities ascribed to a bank, in relation to the collection of taxes, and to trade, could be obtained without it; to analyze which, would prolong the discussion beyond all bounds. It shall be forborne for two reasons. First, because the report concerning the bank may speak for itself in this respect; and secondly, because all those observations are grounded on the erroneous idea that the *quantum* of necessity or utility is the *test* of a constitutional exercise of power.

One or two remarks only shall be made. One is, that he has taken no notice of a very essential advantage to trade in general, which is mentioned in the report, as peculiar to the existence of a bank circulation, equal in the public estimation to gold and silver. It is this that renders it unnecessary to lock up the money of the country, to accumulate for

months successively, in order to the periodical payment of interest. The other is this: that his arguments to show that treasury orders and bills of exchange, from the course of trade, will prevent any considerable displacement of the metals, are founded on a particular view of the subject. A case will prove this. The sums collected in a State may be small in comparison with the debt due to it; the balance of its trade, direct and circuitous with the seat of government, may be even, or nearly so; here, then, without bank-bills, which in that State answer the purpose of coin, there must be a displacement of the coin, in proportion to the difference between the sum collected in the State, and that to be paid in it. With bank-bills no such displacement would take place, or as far as it did, it would be gradual and insensible. In many other ways, also, would there be at least a temporary and inconvenient displacement of the coin, even where the course of trade would eventually return it to its proper channels.

The difference of the two situations in point of convenience to the treasury, can only be appreciated by one who experiences the embarrassments of making provision for the payment of the interest on a stock continually changing place in thirteen different places.

One thing which has been omitted just occurs, although it is not very material to the main argument. The Secretary of State affirms that the bill only contemplates a repayment, not a loan, to the government. But here he is certainly mistaken. It is true the government invests in the stock of the

bank a sum equal to that which it receives on loan. But let it be remembered, that it does not, therefore, cease to be a proprietor of the stock, which would be the case if the money received back were in the nature of a payment. It remains a proprietor still, and will share in the profit or loss of the institution, according as the dividend is more or less than the interest it is to pay on the sum borrowed. Hence that sum is manifestly, and in the strictest sense, a loan.¹

¹ Washington after careful consideration adopted the opinion of Hamilton and signed the bill. The national bank thus established conformed, except in a few points, with the plan proposed by Hamilton while the principles, the guiding lines, and the great central idea were all his. The policy thus begun has prevailed, with one or two intervals, throughout our subsequent history, and seems now to have become a permanent part of our financial system.

The charter of Hamilton's bank expired in 1811. Two years before that date the bank petitioned for a recharter, and Gallatin sent in a report strongly favoring the policy, although suggesting some modifications of the charter. It was too late for action and the matter went over to the next Congress (1810), when a bill was introduced in the House founded on Gallatin's report. At the same time a bill for a new bank was introduced in the Senate. It was charged that the old bank was a Federalist concern. The Democrats, although they had recognized its constitutionality by several acts, began to declaim against it; the two schemes clashed, and the whole matter went over to the next session. The old bank then applied again for a renewal, and was again strongly supported by Gallatin. It was resisted by the enemies of the Secretary and by those speculating in State banks. The House indefinitely postponed it—sixty-five to sixty-four. In the Senate the enacting clause was stricken out by the casting vote of Vice-President Clinton, who rested his objection simply on the ground that the new charter left the bank a private and exclusive corporation beyond the control of the government (1811).

The loss of the bank was severely felt during the stress of the war, which began in the next year, and the financial confusion which followed. To revive our broken credit and re-establish our currency, Dallas (1814) proposed a bank before the close of the war, with power to issue irredeemable paper money. After a sharp conflict bills were

brought in, in conformity to Dallas' report. Calhoun met this scheme with one of his own for a private bank not allowed to suspend specie payment nor compelled to lend to the government. After a close and exciting struggle a compromise plan, agreeing in the main with Calhoun's, was passed and sent to the President, who vetoed it as inadequate for the needs of the time.

The confusion and distress, however, continued, and the government was unable to pay in specie. Dallas, therefore, determined to try for a bank once more. He reported a plan substantially the same as Hamilton's, and this scheme, ardently supported by Calhoun as well as by Clay, who had changed his views since 1811, passed both Houses with slight modifications, was signed by Madison, and became law (1816).

Three years later the question of the constitutionality of the bank came before the Supreme Court in the case of *McCullough vs. Maryland*. Marshall delivered the opinion of the court, which was unanimous. That opinion, one of the ablest of Marshall's decisions, strongly affirmed the constitutionality of the bank, and should be read in conjunction and compared with Hamilton's Cabinet opinion. Nothing shows Hamilton's power of argument and statement, and his ability as a constitutional lawyer better than this most severe test.

When the bank next came before the public it was in the fierce struggle with Andrew Jackson, which began in 1830 and ended with the overthrow of the bank in 1836. The bank had been held to be constitutional by the Congress of 1791, by Washington when he signed the bill, by Jefferson when he signed bills to establish its branches in the Territories, by the Congress of 1816, by Madison when he put his name to the charter of the second bank, and finally by the whole Supreme Court with Marshall at its head. But Jackson knew more than all these, and considered them of no authority; in fact, with his profound legal knowledge, he was able to point out the obvious errors of Marshall. He vetoed the bank bill, resting his veto on all sorts of grounds, and chief among them its unconstitutionality. Then came the "pet banks," receiving the deposits of government, then a brief fever of speculation, and finally the crash of 1837, which, on the whole, was the most remarkable feat and the most memorable achievement of the hero of New Orleans.

After the effects of the panic of 1837 had passed away, there were some futile efforts to revive the bank, and then the country was forced back upon local institutions. The danger, inconvenience, and utter inefficiency of the State banks are still freshly remembered. The country groaned and chafed under them for more than twenty years, until the Republican party came into power and established the present system of national banks. The new plan did away with the State banks by absorbing them and thus destroying the active and

interested opposition which confronted the old Bank of the United States and its predecessor. The present system seems to be firmly and permanently established. It embodies Hamilton's two great principles—national banking, supervised by the Central Government, and a national-bank currency. Hamilton's policy of national banking has become an integral part of our financial system, and has prevailed over all the attacks which have been made upon it. There is another side however to the question more important than its financial results. This is the constitutional argument employed by Hamilton in his cabinet opinion to which allusion has been made in a previous note. In this famous cabinet opinion Hamilton summoned to his aid the doctrine of the unimplied powers of the Constitution, and the establishment of the bank was the first triumph of that principle which has done more than anything else to build up and strengthen the power of the National Government.

END OF VOL. III.







